JANUARY 2011

LONG-TERM CARE REFORM

MORE ACCESS TO BETTER CARE AT LOWER COSTS

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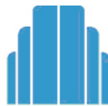

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REFORM

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LONG-TERM CARE REFORM:
More Access to Better Care at Lower Costs

STEPHEN A. MOSES, CENTER FOR LONG-TERM CARE REFORM

Executive Summary

Long-term care is very expensive whether provided in a nursing home, an assisted living facility, or in someone's home. Medicaid pays for most professional long-term care (LTC) in Pennsylvania. LTC currently costs Pennsylvania taxpayers **$6.6 billion per year**, making up 40% of all Medicaid spending (much higher than the national average).[1] Because of the commonwealth's aging population, taxpayer costs for Medicaid long-term care will skyrocket in the coming years absent reform.

Most people prefer to receive LTC in their homes instead of a nursing home, but in Pennsylvania, Medicaid pays primarily for nursing home care. That balance will soon change as the state pursues a massive "rebalancing" of Medicaid, which one state official compared to the "Manhattan Project." The goal is to provide more home care at a lower cost, based on the idea that home care is less expensive than nursing home care.

But research shows that home care does not result in overall savings. Providing more home care delays, but does not replace, institutional care, and actually costs more in the long run. Furthermore, rebalancing without addressing broad eligibility issues discourages family-provided care and private LTC financing alternatives, while encouraging more costly Medicaid enrollment and "Medicaid Planning," or artificial impoverishment.

Because Medicaid will be unable to fund quality care adequately for a rapidly growing frail or infirm elderly population, Pennsylvania must reduce Medicaid LTC costs without sacrificing medically appropriate services to all qualified recipients.

The only way to reform Medicaid LTC, and provide more home care while saving money, is to reduce the number of Pennsylvanians who become dependent on the program in the future. Four alternative sources of LTC financing exist: (1) Asset Spend Down, (2) Estate Recoveries, (3) Home Equity Conversion, and (4) Private Long-Term Care Insurance.

- **Asset Spend Down:** Most people assume Medicaid eligibility rules impose draconian income and asset limits that require applicants to spend down catastrophically into impoverishment. In fact, Medicaid long-term care eligibility rules are far more generous and asset spend down is an underutilized source of LTC financing. The key is to reach aging Pennsylvanians while they are still young, healthy, and affluent enough and persuade them to plan responsibly for LTC so they never become "dual eligibles" for both Medicare and Medicaid. Pennsylvania would

[1] Kaiser Family Foundation, "Pennsylvania: Distribution of Medicaid Spending by Service, FY2008," http://www.statehealthfacts.org/profileind.jsp?ind=178&cat=4&rgn=40&cmprgn=1.

save nearly **$120 million per year** by preventing only 20% of its dual eligibles from ending up dependent on the program in the future.[2]

- Estate Recoveries: If Pennsylvania Medicaid recovered funds from estates at the same rate as Oregon, the commonwealth could recover an additional **$213 million per year.**

- Home Equity Conversion: Pennsylvania may have 135,000 households "at risk for spending down," that could receive an estimated $62,800, each or **$8.5 billion** in total from reverse mortgages to help pay for their own long-term care, and stay off Medicaid or at least delay Medicaid dependency.

- Private Long-Term Care Insurance: In the absence of Medicaid's $500,000 home equity exemption, and with tougher income and asset limits, far more Pennsylvanians would purchase private long-term care insurance, avoid Medicaid dependency altogether, and save the commonwealth **hundreds of millions of dollars** each year.

This report explains how these alternative funding sources can be maximized to relieve Medicaid and enable the program to rebalance cost-effectively.

[2] Stephen A. Moses, "How to Save Medicaid $20 Billion Per Year AND Improve the Program in the Process," Center for Long-Term Care Financing, Seattle, Washington, 2005, http://www.centerltc.com/pubs/howtosavemedicaid.pdf.

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Introduction

The subject of long-term care service delivery and financing, especially as it involves eligibility for Medicaid, known as Medical Assistance in Pennsylvania, is complicated and often esoteric. Most of the problems discussed in this report spring from counterproductive federal law and regulations. The commonwealth, however, with federal approval can implement critical changes to ensure long-term care is available for the next generation of Pennsylvanians.

Pennsylvania's Medicaid long-term care program can be operated in ways that cost less and improve the quality of care for the commonwealth's neediest citizens. This report recommends policies that will facilitate the achievement of these objectives.[3]

The Challenge of Long-Term Care

LTC is medical or custodial assistance people require when they are unable to care for themselves for an extended period of time (usually 90 days or more) because of injury, illness, or frailty.

A common goal of people involved in long-term care service delivery, financing, or policy, is access for all to top quality care at the most appropriate level—home care, assisted living, or skilled nursing, as needed. But long-term care is very expensive regardless of the setting. Nationally, average rates for a semi-private nursing home room increased by 3.7% between 2008 and 2009, from $69,715 to $72,270 annually (this is much higher in Pennsylvania—$85,575), assisted living rates increased by 3.3%, and the cost of home health aides increased by 5%.[4]

To make matters worse, skilled caregivers are in short supply due to high turnover rates, which lead to inadequate training and poor quality care.[5]

Individuals at any age may require LTC, but the greatest demand and highest cost comes from the elderly, especially those 85 and older. Pennsylvania's share of the population age 65 and older is higher than the national average; in 2007, it ranked third highest in the country after Florida and West Virginia.[6] As the "Age Wave" crests and crashes over the next two decades, the rapid increase in demand for LTC will quickly escalate costs.

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[3] Granted only limited access to Pennsylvania Medicaid staff, this study relies on information garnered from one two-hour face-to-face meeting and the written response to a questionnaire on Medicaid estate recoveries. Additional critical questions were left unanswered; these queries are listed in a separate section of the report following policy recommendations.

[4] MetLife Mature Market Institute, "The 2009 MetLife Market Survey of Nursing Home, Assisted Living, Adult Day Services, and Home Care Costs," October 2009, p. 4, http://www.metlife.com/assets/cao/mmi/publications/studies/mmi-market-survey-nursing-home-assisted-living.pdf.

[5] Howard B. Degenholtz and Judith R. Lave, "Long-Term Care in Balance: The Role of Medicaid Policy in Pennsylvania," Pennsylvania Medicaid Policy Center, Pittsburgh, Pennsylvania, 2007, pps. 6-7, http://www.pamedicaid.pitt.edu/documents/PA%20long%20term%20care%20rebalancing%20-%20final.pdf.

[6] Pennsylvania Senior Care and Services Study Commission, "Initial Review: Current Care, Services, and Resources for Pennsylvanians Age 65 and Older," Harrisburg, Pennsylvania, April 30, 2009, p. 5, http://www.dpw.state.pa.us/Resources/Documents/Pdf/InterimRpt-SeniorCareServicesStudyComm2009.pdf.

Unfortunately, America's LTC service delivery and financing system is already plagued by serious problems of access, quality, reimbursement, discrimination against Medicaid beneficiaries, institutional bias, loss of independence, and welfare dependency. In fact, 80% of what are called federally certified [nursing] homes are reported to actively discriminate against Medicaid beneficiaries in their admission practices.[7] Pennsylvania's LTC system shares many of these problems. State policymakers are rightly worried that available resources will not suffice to ensure access to quality care for people in need.

Stuart H. Shapiro, president of the Pennsylvania Health Care Association, explains, "Simply put, we have no means of paying for the long-term-care needs of the nation's 77 million baby boomers . . . We expect somebody to pay it, and believe vaguely that it will be paid—but, in fact, we have not planned for it, individually or as a community. It is thus our nation's greatest unfunded mandate."[8]

Pennsylvania's tax base will be hard-pressed to support public LTC financing at current and rapidly growing levels. Public LTC took a $34 million cut in the 2010-11 state budget, and private LTC financing sources will not be able to go on supporting public LTC programs through "cost-shifting."[9] Nevertheless, the goal of financing quality long-term care for all Americans is not a "bridge too far."

Closing the gap between needed LTC services and sufficient LTC financing, however, will require a new approach, a conceptual "keystone," to connect the span.

Rebalancing is Not the Solution

The federal government and most states, including Pennsylvania, are pursuing "rebalancing" or "deinstitutionalization" as their keystone for long-term care. The goal of LTC rebalancing is to give more people the care they prefer—primarily home and community-based services (HCBS)—at a cost measurably lower than providing services in nursing homes.

In Pennsylvania, the Office of Long-Term Living described the effort as a "Manhattan project for LTC" to reduce nursing home bed-days. They've already gone "from 8% for HCBS to 20%" and have "transitioned 1,000 people this year from nursing homes to the community." Pennsylvania represents one of the largest percentage increases in Medicaid home and Independent Living expenditures among the states from 2000-2007.[10]

While rebalancing meets the demands of clients to obtain more of the kind of care they want, it will not result in savings.

On the surface, it seems logical that rebalancing will save money, because on a per capita, point-in-time basis, home and community-based care is dramatically less expensive than nursing home care. As noted by the Pennsylvania Medicaid Policy Center, ""this

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[7] Toby Edelman, "Discrimination by Nursing Homes Against Medicaid Recipients: Improving Access to Institutional Long-Term Care for Poor People," *Clearinghouse Review*, Special Issue, Summer 1986, p. 339.
[8] Stuart H. Shapiro, "Funding Crisis in Elder Care," *Philadelphia Inquirer*, May 27, 2007.
[9] Meeting, July 13, 2010 with state Medicaid personnel.
[10] Ari Houser, Wendy Fox-Grage, Mary Jo Gibson, "Across the States: Profiles of Long-Term Care and Independent Living," eighth edition, AARP, Washington, DC, 2009, p. 15, http://assets.aarp.org/rgcenter/il/d19105_2008_ats.pdf.

comparison, however, is incomplete because it does not address differences in disability levels, use of acute care services, and the exclusion of housing and room and board costs from home care expenditures."[11]

There is little evidence that providing LTC in the home and community is less expensive than nursing home care across individual life spans and across the society as a whole.[12] Rather, most studies show that home care delays, but does not replace nursing home care, and increases rather than decreases total LTC costs.[13] In other words, offering home and community-based services in lieu of nursing home care may entice more individuals into the Medicaid LTC system, and before they need nursing home care, without reducing total Medicaid LTC expenditures over the long run.

Nevertheless, many academics and public officials continue to subscribe to the belief that rebalancing alone will lead to Medicaid LTC savings.[14]

Impact of Rebalancing on LTC Providers

Apart from costs, there are other problems with relying on rebalancing Medicaid LTC services as the keystone for LTC, because Medicaid is currently an unsustainable program.

Medicaid pays providers much less than market rates for LTC. For example, nursing home respondents told us that Medicaid is a "hidden tax" on other residents because it pays a daily rate of $155, which is only 75% of the $208 private pay rate.[15] Research shows Pennsylvania Medicaid reimbursed nursing homes an estimated $254 million less than allowable costs in 2009 or $13.88 per bed day below the cost of providing the care.[16]

Home health respondents told us that Medicaid pays only $88 for a one-hour skilled care visit by a nurse, but the actual cost in Northeast Pennsylvania is $120 to $125.[17] The most successful home health provider we interviewed said she accepts no Medicaid because of "hoops to jump through," including low reimbursements and payment delays.[18]

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[11] Joshua M. Wiener and Wayne L. Anderson, "Follow the Money: Financing Home and Community-Based Services," Pennsylvania Medicaid Policy Center, Pittsburgh, Pennsylvania, 2009, p. 10, http://www.pamedicaid.pitt.edu/documents/Homecare_rp_09.pdf.
[12] Caro, "Long-Term Care: Informed by Research," AcademyHealth, Washington, D.C., 2003, p. 2, http://www.academyhealth.org/files/publications/ltcresearch.pdf.
[13] H. Stephen Kaye, Mitchell P. LaPlante, and Charlene Harrington, "Do Noninstitutional Long-Term Care Services Reduce Medicaid Spending?," *Health Affairs*, Vol. 28, No. 1, 2009, p. 262, http://content.healthaffairs.org/cgi/reprint/28/1/262.
[14] Joshua M. Wiener and Wayne L. Anderson, "Follow the Money: Financing Home and Community-Based Services," Pennsylvania Medicaid Policy Center, Pittsburgh, Pennsylvania, 2009, p.22, http://www.pamedicaid.pitt.edu/documents/Homecare_rp_09.pdf.
[15] Interview with representatives of the Pennsylvania Association of Non-Profit Homes for the Aging on July 13, 2010.
[16] ELJAY, LLC, "A Report on Shortfalls in Medicaid Funding for Nursing Home Care," for the American Health Care Association, November 2009, pps. 7, 30, http://www.ahcancal.org/research_data/funding/Documents/2009%20Medicaid%20Shortfall%20Report.pdf.
[17] Meeting with home health provider representatives and senior advocates on July 13, 2010 at the office of the Pennsylvania Homecare Association.
[18] Opinion of Susan Heinle, Owner/President, Visiting Angels Living Assistance Services expressed at July 13, 2010 meeting with home health providers.

A leading assisted living provider told us his company, along with other high-quality providers, will not participate, because of the likely inadequacy of Medicaid reimbursements under the waiver. Ted Janeczek, Executive Vice President and Chief Financial Officer, Country Meadows Retirement Communities, the largest assisted living provider in Pennsylvania and the 25th largest in the United States, explained:

> Rebalancing is a good idea, but the people promoting it have unrealistic expectations. I don't understand how rebalancing will decrease Medicaid expenditures. It's just going to increase the number of recipients.[19]

The "Woodwork Factor"

Even more basic than the problem of inadequate Medicaid reimbursements for all levels of LTC is temptation to switch to Medicaid when Medicaid LTC includes ever-more-desirable services without constricting eligibility and utilization.

Based on past experience, it is likely that families now providing LTC in the community will come out of the "woodwork" to take advantage of free or highly subsidized home and community-based services provided by Medicaid. A recent study by AARP estimated that the economic value of all families providing care in the state of Pennsylvania was $14.5 billion per year, while total nursing home costs were $7.6 billion.[20]

Additionally, people will be less likely to plan responsibly for LTC by saving, investing, or insuring if Medicaid pays not only for the nursing home care they'd rather avoid, but also for the home and community based services they prefer.

Others financially ineligible for Medicaid will be more likely to seek legal assistance, or "Medicaid Planning" to become artificially impoverished to receive home care services instead of only nursing home institutionalization.

In other words, making Medicaid LTC more attractive to more people increases, rather than decreases, overall costs; at the same time crowding out alternative private sources of LTC financing. Research finds that Medicaid alone—not counting Medicare, the Veterans Administration and all the other public sources of LTC financing—crowds out two-thirds to 90% of the market for private LTC insurance.[21]

Saving Medicaid LTC for Those in Need

Since Medicaid will be unable to fund quality care adequately for a rapidly growing frail or infirm elderly population, Pennsylvania must reduce Medicaid LTC costs without sacrificing medically appropriate services to all recipients.

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[19] Comment by Mr. Janeczek representing the Pennsylvania Assisted Living Association in an interview on July 15, 2010.

[20] Howard B. Degenholtz and Judith R. Lave, "Long-Term Care in Balance: The Role of Medicaid Policy in Pennsylvania," Pennsylvania Medicaid Policy Center, Pittsburgh, Pennsylvania, 2007, p. 3, http://www.pamedicaid.pitt.edu/documents/PA%20long%20term%20care%20rebalancing%20-%20final.pdf.

[21] Jeffrey R. Brown and Amy Finkelstein, "The Interaction of Public and Private Insurance: Medicaid and the Long-Term Care Insurance Market," National Bureau of Economic Research, December 2004, cited from the paper's "Abstract," http://www.nber.org/~afinkels/papers/Brown_Finkelstein_Medicaid_Dec_04.pdf.

The only way to accomplish this is by decreasing the number of Pennsylvania citizens dependent on Medicaid for their LTC. More Pennsylvanians must be able to pay privately in the future for the LTC services they prefer.

The Keystone of Long-Term Care

There are four potential sources of private LTC funds that could relieve the financial burden on Medicaid and free up more of the program's severely limited resources to improve care for the most needy.

Those four sources are (1) more "spend down" of personal assets, (2) more non-tax revenue from liens and estate recoveries, (3) home equity conversion, and (4) private LTC insurance.

In examining solutions, officials need to analyze how and why they are so limited and how Pennsylvania can tap each source to relieve the growing Medicaid burden.

<u>More spend down</u>. Most people assume Medicaid eligibility rules impose draconian income and asset limits that require applicants to spend down catastrophically into impoverishment. If this were true, it would mean selling off assets is a fairly common practice. This is not the case.

Medicaid LTC eligibility rules are far more generous and elastic than commonly believed. Under Pennsylvania's "medically needy' income eligibility rules, anyone with income below the cost of a nursing home ($7,514.74 per month in 2010, on average, in Pennsylvania) qualifies based on income.[22] The medically needy can qualify with even higher incomes if they have additional medical expenses they cannot afford. Assets held in exempt form, such as a home (up to $500,000 in equity),[23] one business "regardless of value or rate of return,"[24] one automobile of unlimited value,[25] burial insurance or prepaid burial plans "regardless of value,"[26] and term life insurance in any face value amount,[27] are virtually unlimited.

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[22] Cited from the website home page of elder law attorney Robert C. Gerhard, III at http://www.paelderlaw.net/home/ as of July 26, 2010.

[23] Federal Medicaid LTC eligibility rules exempted unlimited home equity, including the value of all property contiguous to the home, until the Deficit Reduction Act of 2005, signed into law by President Bush on February 8, 2006, capped the home equity exemption at $500,000 or $750,000 depending on state legislative option. Pennsylvania opted for the lower, half million dollar, cap. New York, California, Massachusetts and Idaho opted for the higher cap.

[24] "Property essential to self-support used in a trade or business is excluded from resources regardless of value or rate of return effective May 1, 1990." Social Security Administration, *Program Operations Manual System (POMS)*, http://policy.ssa.gov/poms.nsf/lnx/0501130501.

[25] "One automobile per household is excluded regardless of the value if it is used for transportation of the eligible individual/couple or a member of the eligible individual's/couple's household. ASSUMPTION: Assume the automobile is used for transportation, absent evidence to the contrary. Social Security Administration, *Program Operations Manual System (POMS)*, "SI 01130.200: Automobiles and Other Vehicles Used for Transportation," http://policy.ssa.gov/poms.nsf/lnx/0501130200. Emphasis in original.

[26] "A burial space or agreement which represents the purchase of a burial space held for the burial of the individual, his or her spouse, or any other member of his or her immediate family is an excluded resource, regardless of value." Social Security Administration, *Program Operations Manual System (POMS)*, "SI 01130.400: Burial Spaces," http://policy.ssa.gov/poms.nsf/lnx/0501130400.

People who are so affluent they do not qualify under the basic rules may hire "Medicaid planners" to impoverish them artificially, by gifting assets to their loved ones and other mechanisms. See Appendix B for examples of Pennsylvania Medicaid planners, their advertising claims, and the techniques they use.

Fraudulent misrepresentation of applicants' income and assets is also a large problem, possibly involving hundreds of millions of dollars.[28] Neither income nor assets are significant obstacles to obtaining Medicaid-financed LTC in Pennsylvania.

The potential savings from preventing Medicaid LTC dependency are staggering. The key is to reach aging Pennsylvanians while they are still young, healthy, and affluent enough and persuade them to plan responsibly for LTC so they never become "dual eligibles."

Dual eligibles receive both Medicare and Medicaid benefits. Medicaid often pays Medicare co-payments as well as their Medicaid benefits. In 2005, 400,000 dual eligibles were 21% of Medicaid recipients in Pennsylvania, and accounted for 52% of program spending ($14,972 per dual enrollee as compared to $5,979 for non-duals). "The average dual eligible is more costly than the average Medicaid beneficiary because he or she is older, sicker (a significant proportion are enrolled in Medicaid because they are disabled), poorer and they use more expensive services, such as LTC."[29]

Pennsylvania Medicaid would save nearly **$120 million per year** by preventing only 20% of its duals from ending up dependent on the program in the future.[30]

Liens and Estate Recoveries. This source of non-tax revenue often evokes inaccurate and unfair criticism as "picking the bones of the poor"[31] or imposing a "Medicaid death tax."[32] The reality is that as long as Medicaid LTC allows recipients to retain large amounts of exempt assets, any failure to collect the cost of their care from their estates means

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Medicaid eligibility workers in other states estimate that between 65% and 80% of all Medicaid LTC recipients have prepaid for burial costs at least for themselves and/or family members. Such burial costs vary from $5,000 to $15,000 with $10,000 a reasonable average. "Direct cremation" (no visitation or services at all) is available as low as $695. (Source: Personal email communication on 6/28/10 from Harry C. Neel of the Pennsylvania Cemetery Cremation and Funeral Association's Consumer Service Council.)

[27] "[T]he FV [face value] of the following are not taken into account: burial insurance policies; and term insurance policies that do not generate a CSV [cash surrender value]." (Social Security Administration, *Program Operations Manual System (POMS)*, "SI 01130.300: Life Insurance," http://policy.ssa.gov/poms.nsf/lnx/0501130300.) Why would a 90-year-old buy a million dollar term life policy when the premium would almost equal the benefit? Instantaneous self-impoverishment and the term insurance benefit passes to the beneficiary at death thus avoiding Medicaid's "mandatory" estate recovery requirement.

[28] Elizabeth Stelle, "Welfare Fraud and Abuse," testimony by Elizabeth Stelle, Research Associate, Commonwealth Foundation, Harrisburg, Pennsylvania, June 2, 2010, http://www.commonwealthfoundation.org/research/detail/welfare-fraud-and-abuse.

[29] Judith R. Lave and Caleb B. Wallace, "The Intersection of Medicare and Medicaid: The Dual Eligibles in Pennsylvania," Pennsylvania Medicaid Policy Center, Pittsburgh, Pennsylvania, undated, p. 5, http://www.pamedicaid.pitt.edu/documents/Duals_fs_09.pdf.

[30] Stephen A. Moses, "How to Save Medicaid $20 Billion Per Year AND Improve the Program in the Process," Center for Long-Term Care Financing, Seattle, Washington, 2005, http://www.centerltc.com/pubs/howtosavemedicaid.pdf.

[31] Roger A. Schwartz, J.D. and C.P. Sabatino, "Medicaid Estate Recovery Under OBRA '93: Picking the Bones of the Poor," American Bar Association, Commission of Legal Problems of the Elderly, November 1994.

[32] Jeffrey A. Marshall, CELA, "The Medicaid Death Tax: Medical Assistance Estate Recovery in Pennsylvania," undated, http://www.paelderlaw.com/medicaiddeathtax.html, cited July 22, 2010.

Medicaid operates as "free inheritance insurance" for their baby-boomer heirs. And this is precisely the generation that will overwhelm Medicaid if they become dependent on it for their own LTC.

Despite conventional wisdom that liens and estate recoveries are only a small potential revenue source, they can be substantial. In fiscal year 2004, Oregon recovered 5.8% of the cost of its Medicaid nursing home program from the estates of deceased recipients. In the same year, the U.S. Department of Health and Human Services reports that Pennsylvania recovered only 0.1% of nursing home expenditures and was one of only 12 states that collected less that year than in 2002: 74.7% less.[33] Pennsylvania's underused Medicaid estate recovery's benefit-to-cost ratio is 17 to one. In other words, the program recovers $17 for every $1 invested in the recovery effort. Pennsylvania Medicaid reported estate recoveries of approximately $24 million for 2004.

Putting more effort into estate recovery (even if at a somewhat lower rate of return) will dramatically increase the amount recovered. If Pennsylvania Medicaid recovered from liens and/or estates at the same rate as Oregon (5.8%) the commonwealth could recover an additional **$213 million per year**.

Home Equity Conversion. Most Pennsylvanians own their homes—71.3%, compared to the national average of only 66.2%.[34] Nationally, over 80% of seniors own their homes, and over 70% of these own their homes free and clear of mortgage debt.[35] People age 62 and older can access their home equity easily, and without incurring monthly payments, by means of reverse mortgages. But very few people use reverse mortgages to fund home and community-based LTC services that would enable them to remain in their homes longer, and fewer tap their home equity to afford private LTC insurance premiums.[36]

Under federal law, Medicaid exempts one home and all contiguous property up to $500,000 (in Pennsylvania) or $750,000 (in some other states) in equity. The median home price in Pennsylvania was about $152,000 in 2009, down from $180,000 in 2006.[37] With the vast majority of Pennsylvania homes valued below the Medicaid home equity exemption amount, aging homeowners have no financial incentive to spend down their home equity for LTC services. But home values are a substantial potential resource for LTC financing.[38]

Pennsylvania has no authority under federal law to require Medicaid applicants to spend down their home equity below $500,000. But the commonwealth could strengthen its

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[33] U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, Office of Disability, Aging and Long-Term Care Policy, "Medicaid Estate Recovery Collections," Policy Brief No. 6, September 2005, p. 8, http://aspe.hhs.gov/daltcp/Reports/estreccol.pdf.
[34] U.S. Census, "State and County QuickFacts," Pennsylvania, http://quickfacts.census.gov/qfd/states/42000.html.
[35] Barbara R. Stucki, "Use Your Home to Stay at Home: Expanding the Use of Reverse Mortgages for Long-Term Care: A Blueprint for Action," The National Council on the Aging, January 2005, http://www.reversemortgagetimes.org/guides/reverselongterm.pdf.
[36] Pennsylvania reverse mortgage lenders we interviewed on July 15, 2010 said using such loans to fund long-term care is "very rare" and they "never hear anything about using reverse mortgages to buy LTC insurance."
[37] See http://www.trulia.com/home_prices/ and http://www.homepricetrend.com/pennsylvania.
[38] U.S. Census Bureau, Alfred O. Gottschalck, Current Population Reports, "Net Worth and the Assets of Households: 2002 Household Economic Studies," Issued April 2008, pps 70-115, Table 4. Median Net Worth and Median Net Worth Excluding Home Equity of Households by Age of Householder and Monthly Household Income Quintile: 2000 and 2002, p. 10, http://www.census.gov/prod/2008pubs/p70-115.pdf, cited July 23, 2010.

lien and estate recovery program, by following best practices in states like Oregon, and utilize education and/or tax incentives to encourage people to tap their home equity for LTC. Pennsylvania could also seek a waiver from the Centers for Medicare and Medicaid services to reduce the Medicaid home equity exemption experimentally to a level more closely resembling the amount of home equity exempted in England, approximately $36,700.[39]

It is difficult to estimate the potential savings to Medicaid without determining what happens to home equity between the point when most aging Pennsylvanians have home equity, and they are on Medicaid receiving LTC benefits and no longer own their homes. Some possibilities include transfers outside the five-year transfer-of-assets penalty window, sale of the home with re-purchase of an interest in an adult child's home, and life estates with reserved special powers.

Nationwide, 3.3 million households are at financial risk for 'spending-down' and could use a reverse mortgage to help them pay for care at home. On average, these homeowners could receive $62,800 from a reverse mortgage to pay for immediate care needs and for early interventions such as home modifications."[40] Pennsylvania has about 4.1% of the U.S. population, so a reasonable estimate of the potential value from reverse mortgages in the state is <u>$8.478 billion</u>—funds which could help families pay for their own LTC, staying off Medicaid or delay Medicaid dependency.

<u>Private Long-Term Care Insurance</u>. Market penetration by insurance that will pay for both custodial and skilled LTC at home, in assisted living, or a nursing home is less than 10%. Data indicate there are 250,028 LTC "insured lives" in Pennsylvania as of 2008. Pennsylvania's age 45 plus population, the cohort most likely to own LTC insurance, is 4,755,822. Thus, LTC insurance market penetration in Pennsylvania is ***only 5.3%.*** [41]

A much higher estimate of LTC insurance market penetration, 36% of people ages 55 to 84 with more than $35,000 in annual income in Pennsylvania, was published by the Pennsylvania Senior Care and Services Study Commission. This estimate is misleading because it excludes a large group of people likely to own LTC coverage—people over 85 years of age; people 45 to 54 years of age, and people with less than $35,000 per year of income. [42] In fact, the LTC insurance market is only a fraction of that rate in Pennsylvania.

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[39] "Long-term care: get the best deal now, A new commission is to investigate the best way of funding care for our ageing population. But what steps can families take now?," *Telegraph.co.uk*, July 21, 2010, http://www.telegraph.co.uk/finance/personalfinance/7902277/Long-term-care-get-the-best-deal-now.html.

[40] Barbara R. Stucki, "Use Your Home to Stay at Home: Expanding the Use of Reverse Mortgages for Long-Term Care: A Blueprint for Action," The National Council on the Aging, January 2005, pps. v-vi; http://www.reversemortgagetimes.org/guides/reverselongterm.pdf.

[41] Data from 2009 and 2008 Long Term Care Experience Reports published by the National Association of Insurance Commissioners, as cited in "The 2010 Sourcebook for Long-Term Care Insurance Information," (Source for population estimate is The Pennsylvania State Data Center, Table DP-1. Profile of General Demographic Characteristics: 2000 Geographic Area: Pennsylvania, March 25, 2002 from U.S. Census Bureau, Census 2000, http://pasdc.hbg.psu.edu/pasdc/PA_Stats/census_data/census_2000/population/pennsylvania/DP1/State.htm.

[42] Pennsylvania Senior Care and Services Study Commission: "The Long-term Care Financing Strategy Group," http://www.dpw.state.pa.us/Resources/Documents/Pdf/InterimRpt-SeniorCareServicesStudyComm2009.pdf, "Initial Review: Current Care, Services, and Resources for Pennsylvanians Age 65 and Older," Harrisburg, Pennsylvania, April 30, 2009, p. 27.

While 93 companies write LTC insurance coverage, only 17 companies actively market "long-term care partnership" policies.

Published, peer-reviewed research confirms that between two-thirds and 90% of the private LTC insurance market is crowded out by the availability of Medicaid financed LTC.[43] Contrary to conventional wisdom, people don't fail to purchase private LTC exclusively because of denial or cost. Rather, they don't buy it because ***they don't think they need it.*** The reason they don't think they need it is that Medicaid has paid for most expensive LTC since 1965.

By discouraging Medicaid estate planning, encouraging asset spend down and home equity conversion, and incentivizing the purchase of LTC insurance, Pennsylvania will cause more citizens to take the risk of LTC seriously and plan responsibly.

Pennsylvania is one of only five states with an income tax that does not have a state tax credit or deduction for LTC insurance. In 36 states and the District of Columbia, people with LTC insurance may qualify for a state tax credit or deduction. In 14 states, people who purchase LTC insurance receive no state subsidy. In 9 of those 14 states, there is no broad-based income tax.[44] Pennsylvania is thus one of only five states in which income spent on LTC insurance is taxed. This is in sharp contrast to tax treatment of traditional, employer-provided health insurance.

Private LTC insurance is much more affordable than commonly believed. A survey by the American Association for Long-Term Care Insurance shows that LTC insurance is surprisingly affordable. More than one-third of the 93,500 new buyers surveyed paid less than $1,499 per year for their coverage.[45]

Stronger promotion of the state's "Long-Term Care Partnership" program and initiation of tax incentives for the purchase of LTC insurance would enhance private LTC financing and relieve some of the financial burden on Medicaid.

The "Long-Term Care Partnership" program enables Pennsylvanians to purchase qualified LTC policies that allow a dollar-for-dollar increase in the Medicaid asset exemption. In other words, someone who purchases a Partnership policy with $100,000 of coverage and uses up the benefit may then qualify for Medicaid LTC benefits while retaining an extra $100,000 in assets. Representatives of the Pennsylvania Insurance Department expressed surprise about how slowly the LTC Partnership market has ramped up, while others explained the program was not advertised and lacks coordination with agents.[46]

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[43] Jeffrey R. Brown and Amy Finkelstein, "The Interaction of Public and Private Insurance: Medicaid and the Long-Term Care Insurance Market," National Bureau of Economic Research, December 2004, cited from the paper's "Abstract," http://www.nber.org/~afinkels/papers/Brown_Finkelstein_Medicaid_Dec_04.pdf.

[44] David Baer and Ellen O'Brien, "Federal and State Income Tax Incentives for Private Long-Term Care Insurance," AARP Public Policy Institute, Washington, D.C., November 2009, p. 9, http://assets.aarp.org/rgcenter/ppi/econ-sec/2009-19-tax-incentives.pdf.

[45] "What People Pay For LTC Health Insurance," http://www.aaltci.org/news/long-term-care-association-news/report-what-people-pay-for-ltc-health-insurance.

[46] Representatives of the Pennsylvania Insurance Department (interviewed on July 14, 2010) told us they were surprised how slowly the LTC Partnership market has ramped up. LTC insurance marketers (interviewed on July 15) complained there was a "big problem with Partnership training; the program was rolled out with no advertising; and no coordination with the agents."

It is highly likely that in the absence of Pennsylvania Medicaid's $500,000 home equity exemption, or with maximum estate recovery of home values, many more people would choose private LTC insurance as a means to pay for their care while protecting their entire estates without having to tap their home equity through reverse mortgages.

Recommendations

Several things lawmakers and Medicaid Administrators must consider in reforming LTC include:

- Identify how much potential private LTC financing is diverted to rising Medicaid expenditures by conducting a "recovery audit" of a valid random sample of LTC cases.[47] Based on the findings of this review and analysis, develop a corrective action plan to close eligibility loopholes and discourage abusive Medicaid planning practices.

- Seek authority through a waiver from the Centers for Medicare and Medicaid Services to reduce Medicaid LTC eligibility exposure and to maximize private LTC financing alternatives.
    - Extend the "look-back period," during which assets transferred for less than fair market value to qualify for Medicaid incur an eligibility penalty from five years to 10 years (as in Germany).
    - Eliminate or radically reduce the home equity exemption for Medicaid LTC eligibility from $500,000 to no more than $35,700 (as in England).
    - Preclude the use of trusts, annuities, promissory notes, the "reverse half-a-loaf" strategy and other techniques used to shelter assets from Medicaid LTC financial eligibility limits.

- Enhance Pennsylvania's estate recovery program by pursuing spousal recoveries—the GAO estimated in 1989 that pursuing spousal recoveries could increase California's total estate recoveries by 70% from $15.8 million to $26.8 million.[48] Do not automatically waive recovery of estates with small gross values, but pursue all estates for which recovery is cost effective.[49]
    - To eliminate all cost to the state and maximize recoveries, consider hiring an outside contractor on contingency to do estate recoveries in exchange for a percentage of the amount recovered.

- Educate Pennsylvanians about the importance of planning for LTC.

[47] Unable to interview a Pennsylvania Medicaid LTC eligibility policy specialists for this study, here the list of eligibility "leaks" we identified in a recent study of Rhode Island's Medicaid program. All are potential problems for Pennsylvania as well. See Stephen A. Moses, "Doing LTC RIght," Ocean State Policy Research Institute, Providence, Rhode Island, January 2010; http://www.centerltc.com/pubs/Doing_LTC_RIght.pdf.
[48] GAO, "Medicaid: Recoveries from Nursing Home Residents' Estates Could Offset Program Costs," GAO/HRD-89-56, March 1989, p. 4; http://archive.gao.gov/d15t6/138099.pdf.
[49] Oregon's average estate recovery was only $2,000 during a period of highly successful total recoveries.

- Encourage the use of reverse mortgages and private LTC insurance to fund LTC privately by publicizing and expanding Pennsylvania's Long-Term Care Partnership program.
    - Consider tax incentives to encourage the purchase of private LTC insurance, to reduce the number of those dependent on Medicaid.

Conclusion

Pennsylvania faces a severe budget crisis. The cost of Medicaid, especially its expensive LTC component, is a major driver of spending increases. The Rendell Administration, the state legislature, and key public officials have invested heavily in the idea that Medicaid can provide more desirable LTC services to a growing base of aging recipients while minimizing expenditures through "rebalancing." But caring for more Medicaid-dependent Pennsylvanians in home and community-based settings rather than nursing homes is unlikely to save money; could lead more people to seek Medicaid coverage; and reduces the public's incentive to save, invest, or insure privately for LTC.

With the baby-boomer "Age Wave" about to crest, especially in states with the biggest aging populations like Pennsylvania, it behooves policymakers to analyze the risk of expanding public financing of LTC. At least, they should question whether "rebalancing" in the absence of stronger eligibility controls is fiscally wise, and they should explore ways to encourage private LTC financing alternatives such as personal asset spend down, stronger liens and estate recoveries, home equity conversion, and private LTC insurance.

Medicaid has paid for most expensive LTC since 1965, but it cannot do so much longer. Tough questions must be asked and new directions considered. By limiting Medicaid LTC eligibility and encouraging more private financing of LTC from private sources, Pennsylvania's Medicaid program could realistically hope to provide the home and community-based services most people prefer to a smaller base of recipients without straining limited budget resources.

Appendix A: The CLASS Act

The Community Living Assistance Services and Supports (CLASS) Act became law when President Obama signed the Patient Protection and Affordable Care Act, otherwise known as "health reform," on March 23, 2010.

CLASS is a program intended to provide a source of private financing for LTC services enabling beneficiaries to purchase the kind and level of care most appropriate for their needs. For this reason, some believe CLASS, when fully implemented, will be an important new source of LTC financing that will relieve the burden on Medicaid.

Medicaid management staff strongly articulated that opinion during a meeting with us on July 13, 2010, saying: "We see optimism in CLASS. Maybe in our lifetimes, CLASS will be a major viable alternative to finance LTC, a sleeping giant similar to Social Security and Medicare in potential. We don't see any downside." Is this optimism justified?

Insurance Department representatives conveyed a far more reserved opinion in our meeting with them on July 14, 2010. The insurance regulators opined that most people would probably opt not to participate in the program for the same reason few buy private LTC insurance. But, they indicated, the very existence of CLASS "could soothe people into thinking they are protected" and thus impede growth of the private LTC insurance market.

Who is right? Medicaid management's optimism and insurance regulators' skepticism about CLASS led us to conclude that this report must contain some facts and evaluation about the new program.

Facts about CLASS

- CLASS is Title VIII of the Patient Protection and Affordable Care Act of 2010.[50]
- CLASS advocates define it as a "New voluntary nationwide long term services and supports insurance program for persons with disabilities and seniors with chronic illness."[51]
- CLASS is "effective" January 1, 2011, but is not expected to become operational until late 2012 or 2013.
- Enrollment in CLASS of eligible employees is automatic, either administered by employers who agree to participate or by other means to be determined.
- Anyone may opt out of CLASS anytime.
- To be eligible for CLASS, a person must be 18 years of age or older, employed earning at least $1,120 per quarter, and not in a nursing home on Medicaid or in jail.
- Premiums will be determined by the Secretary of the U.S. Department of Health and Human Services (hereinafter "the Secretary") based on what the program can afford but are expected to average $125 per month, varying by age.
- No medical underwriting is allowed.
- Participants must pay into CLASS for five years before becoming eligible for benefits.

[50] Patient Protection and Affordable Care Act (Enrolled as Agreed to or Passed by Both House and Senate) [PDF], AKA "Health Reform," AKA "ObamaCare," signed by President Obama on March 23, 2010.
[51] Definition attributed to the American Association of Homes and Services for the Aging, a trade association of nonprofit LTC providers.

- Benefit triggers include the verified need for help with two or three "activities of daily living"[52] and/or cognitive impairment depending on what the Secretary decides the program can afford.
- Benefit levels will depend on what the program can afford as determined by the Secretary, but by statute they can average no less than $50 per day.
- Benefits will be paid electronically into a debit card daily or weekly with no aggregate lifetime limit.
- Benefits may be used to purchase home modifications, assistive technology, accessible transportation, homemaker services, respite care, personal assistance services, home care aides, nursing support, but also assisted living or nursing home care.
- CLASS benefits will be coordinated with Medicaid so that CLASS beneficiaries will be able to keep more than the small "personal needs allowance" Medicaid otherwise allows.[53]
- CLASS benefits are disregarded in determining eligibility "under any other Federal, State, or locally funded assistance program," *i.e.*, Medicaid, etc.
- Premiums paid by participants go into a CLASS "Life Independence Account" that is required by the statute to operate like Social Security's trust fund.
- Various audits must be performed at intervals to ensure that the CLASS remains solvent for the next 75 years.
- Administrative costs for CLASS may not exceed 3% of premiums collected.

General Criticism of CLASS

- The program is "one size fits all," unadaptable to individual needs.
- The Secretary decides premium levels, benefit triggers, benefit levels, and everything of importance based on the program's solvency. Participants won't know until much later what they will get from CLASS.
- Participants have no "contract" or "policy" as with a private LTC insurance product.
- CLASS ignores "risk management" by applying no medical underwriting. It is vulnerable to adverse selection because of this "guaranteed issue" policy.
- The CLASS requirement that participants must pay premiums for five years before becoming eligible for benefits is an unusually long "elimination period."
- The CLASS "trust fund" will be used immediately to fund other federal government operations. It will contain only treasury bonds, so that when CLASS claims come due, the government will have to repay the bonds' principal plus interest in order to pay the program's promised benefits.
- CLASS premiums collected but unspent during the program's first 10 years were treated as an offset to the federal deficit instead of being secured as reserves to pay claims later.
- CLASS's guaranteed eligibility, guaranteed benefits, and guaranteed lifetime coverage leave the program vulnerable to rapid actuarial insolvency.

[52] Activities of daily living (ADLs) mentioned in the CLASS statute include Eating, Toileting, Transferring, Bathing, Dressing, and Continence.
[53] CLASS beneficiaries who are on Medicaid will be able to retain 5% of their benefit if in a nursing home and 50% if receiving home and community-based services.

Comments on CLASS by Professional Actuaries

- "In general, voluntary, unsubsidized, and non-underwritten insurance programs such as CLASS face a significant risk of failure as a result of adverse selection by participants…. This effect has been termed the 'classic assessment spiral' or 'insurance death spiral.'" (CMS Chief Actuary, April 2010)[54]
- "While the eventual effects of complex financial programs are difficult to forecast, the CLASS Act as currently structured is conspicuous because it introduces guaranteed-issue LTC benefits without installing the kinds of protections necessary to minimize adverse selection risk." (Allen Schmitz of Milliman)[55]
- "We estimate that about 2.8 million persons would participate in the program by the third year. This level represents about 2% of potential participants, compared to a participation rate of 4% for private LTC insurance offered through employers." (CMS Chief Actuary, November 2009)[56]
- "In our view, the opt-out and guaranteed issue provisions of the plan will attract a disproportionate share of higher-risk individuals such that, in a relatively short time period, future increases in premiums and/or reductions in benefits may be required to make the program sustainable." (American Academy of Actuaries, November 2009)[57]
- "Our actuarial analysis indicates that the proposed structure and funding approaches in the CLASS Act, as introduced on June 9, will not only be unsustainable within the foreseeable future, but are unlikely to cover more than a very small proportion of the intended population." (American Academy of Actuaries, July 2009)[58]

Published Critiques of CLASS

- The CLASS Act: Repeal Now, or Face Permanent Taxpayer Bailout Later, Heritage Foundation, July 23, 2010. Quote: "Healthy individuals rationally intend to bypass CLASS because it is a bad deal for them, especially compared to insurance policies they could purchase on the open market." (p. 4)
- CLASS Act: Madoff Would Be Proud, May 18, 2010, report of the Senate Joint Economic Committee Republicans. Quote: "Obamacare includes a new LTC entitlement called CLASS that masks health care reform's full costs. CLASS will add to federal deficits within 15-20 years. It is financially unsustainable due to poor

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[54] April 22, 2010 report by Centers for Medicare and Medicaid Services Chief Actuary Richard S. Foster titled "Estimated Financial Effects of the 'Patient Protection and Affordable Care Act,' as Amended," p. 15, http://camp.house.gov/webreturn/?url=http://republicans.waysandmeans.house.gov/UploadedFiles/OACT_Memorandum_on_Financial_Impact_of_PPACA_as_Enacted.pdf.

[55] Allen Schmitz, "Adverse Selection in the CLASS Act," Milliman Health Reform Briefing Paper, December, 2009, p. 1, http://publications.milliman.com/research/health-rr/pdfs/adverse-selection-class-act.pdf.

[56] November 13, 2009 report by Centers for Medicare and Medicaid Services Chief Actuary Richard S. Foster titled "Estimated Financial Effects of the 'America's Affordable Health Choices Act of 2009' (H.R.3962), as Passed by the House on November 7, 2009," p. 15; http://camp.house.gov/UploadedFiles/OACT_Memorandum_on_Financial_Impact_of_H_R__3962__11-13-09_.pdf.

[57] American Academy of Actuaries, "Critical Issues in Health Reform: Community Living Assistance Services and Supports Act," November 2009, pps. 2-3; http://www.actuary.org/pdf/health/class_nov09.pdf.

[58] American Academy of Actuaries July 22, 2009 letter to U.S. Senate Committee on Health, Education, Labor and Pensions regarding "Actuarial Issues and Policy Implications of a Federal Long-Term Care Insurance Program.," p. 1, http://www.actuary.org/pdf/health/class_july09.pdf.

design. Fixing it will require premium hikes, benefit cuts, and/or mandatory participation." (p. 1)

- The Other New Health Entitlement, article on CLASS in *Facing Facts Quarterly*: *A Report about Entitlements & the Budget* from The Concord Coalition, Volume V, Number 3, New Series, December 2009. Quote: "As it stands, the CLASS Act embodies the worst sort of budgetary and actuarial chicanery. It pretends that premiums can be double-counted both as a near-term budget offset and as long-term savings. And it violates the most basic principles of sound insurance design by failing to provide for either underwriting or a mandate and by underfunding the oversight needed to detect fraud." (p. 2)
- Lori Montgomery, "Proposed long-term insurance program raises questions: Opponents warn plan could require vast infusions of cash," *Washington Post*, October 27, 2009. Quote: "Sen. Kent Conrad (D-N.D.) [Chairman of the U.S. Senate Budget Committee] called the CLASS Act 'a Ponzi scheme of the first order, the kind of thing that Bernie Madoff would have been proud of,' and he vowed to block its inclusion in the Senate bill."

Appendix B: Medicaid Planning in Pennsylvania

The following are examples of Pennsylvania Medicaid planners, their advertising claims, and some of the techniques they use to impoverish clients artificially to qualify them for Medicaid LTC benefits.

One of the more egregious purveyors of Medicaid planning advice is national in scope but claims to provide Pennsylvania-specific recommendations here: http://www.medicaidhelp.com/pa/. The following information was extracted from this website on July 26, 2010.

"Don't give all the assets to the nursing home or to Pennsylvania Medicaid...
You don't have to!!!"

"Learn how Pennsylvania patients can qualify for Medicaid (using approved 2010 Pennsylvania Medicaid eligibility rules), while protecting assets, even if already in care."

"TEST YOUR PENNSYLVANIA MEDICAID KNOWLEDGE... True or False?
* The new Deficit Reduction Act (DRA) rules will keep you from protecting assets from Pennsylvania Medicaid? - False
* You must 'spend down' everything on care before qualifying for Medicaid? - False
* If you give away assets, you are automatically disqualified from Medicaid for 5 years? - False
* It is illegal to give away assets to qualify for Medicaid? - False
* You can give each of your children and grandchildren up to $13,000 without affecting Medicaid eligibility? - False
* A Living Trust will protect assets from Medicaid? - False
* Once in a nursing home, there is nothing you can do to protect assets from Pennsylvania Medicaid? - False
If you believe any of these myths, you need to find out how the Medicaid program really works!!!
Our video will teach you the real rules of Medicaid eligibility!"

"**But did you know that you can easily learn how (using approved Federal and State MEDICAID eligibility rules) to transfer assets and qualify for nursing home or other long-term care MEDICAID - quickly! Anyone can do it - you just need to learn how!**" [Emphasis added.]

The following information was extracted on July 26, 2010 from the website of Robert C. Gerhard III, Esquire, Gerhard & Gerhard Law Offices, 222 S. Easton Road, Suite 104 Glenside, PA 19038 (near Phil.), http://www.paelderlaw.net/home/.

"So many times clients come to our office under the mistaken impression that there is nothing that can be done to protect assets from nursing home costs. Much of the popular literature gives readers the idea that unless assets are given away three years prior to a nursing home placement, it just about all goes to the nursing home. The answer actually depends upon the specific facts of your case. Though recently enacted legislation

significantly restricts the use of some techniques, other asset protection strategies remain viable, especially for married couples where one spouse requires LTC. **Mr. Gerhard can guide you through the Medicaid application process (for home care under the PDA 60+ Waiver Program or nursing facility care) and enable you to shelter what can be protected under the law**." [Emphasis added.]

"Whether you are just planning ahead, facing an increasingly difficult time providing care at home, or have determined placement in a nursing facility to be unavoidable, Mr. Gerhard can help. Protecting a lifetime of savings, or at least as much as is legally possible, from nursing home costs does not happen by accident; it takes careful planning."

Medicaid Planning Law Center, 201 Penn Center Blvd., Suite 400, Pittsburgh, PA 15235, information extracted July 26, 2010 from http://www.medicaidplanninglawctr.com/MedicaidPlanningandAssetProtection.shtml.

"It is possible to arrange your assets to protect them from nursing home costs and qualify for Medicaid assistance. With nursing homes in Pennsylvania averaging $8,000 a month, assets can dwindle rapidly. Our Asset Protection Attorneys care about you and your family. You do not have to go broke while paying for your loved one in a LTC facility. We will help you maximize your legal strategies of transferring assets, protect your assets, and protecting the quality of life of your loved ones both in and out of the nursing home.

"There are many options to protecting your assets from nursing home costs.
*** Irrevocable trusts**
*** Gifting**
*** Converting non-exempt assets into exempt assets**
*** Legal spend downs**
*** Purchasing annuities and long-term care insurance** [Emphasis added.]

"We welcome you to contact the Medicaid Planning Law Center to learn more about the options we have available for protecting your assets and planning for Medicaid."

The Elder Law Firm of Robert Clofine, 120 Pine Grove Commons, York, PA 17403, http://www.estateattorney.com/index.html, information extracted July 26, 2010.

"Because the Welfare Department is waiting to collect upon your death, there are rules designed to keep you from giving your house away while you are alive. If you are about to enter a nursing home and still own a residence, you may be able to transfer the house to another family member so that it will not have to be sold when you die. Without advance planning, however, the options are limited.

"First, the home can always be transferred to your spouse. Second, you can transfer the house to a child if the child is under age 21, or is blind or disabled. Third, transfers to a brother or sister are allowed if the sibling had an equity interest in the home and resided with you in the house for at least 1 year before you enter the nursing home. Finally, a transfer to a child is permitted if the child lived with you for at least 2 years before you go to the nursing home and the child provided care which allowed you to stay at home, rather

than enter a facility. **If you don't fall into these categories, a transfer of the home may render you ineligible for medical assistance unless the transfer was properly planned in advance of your medical assistance application**." [Emphasis added.] (http://www.estateattorney.com/elderlaw-articles/medicaid-preservingyourhome.html)

Pennsylvania Care Management, 49 East Fourth Street Williamsport, PA 17701, http://www.paannuity.com/, information extracted July 26, 2010.

"**PaANNUITY.COM provides Pennsylvania attorneys with Medicaid Qualifying Annuities to help their clients qualify for Medicaid**. We work with Pennsylvania attorneys to provide annuities that conform to Federal and State Medicaid laws and regulations. [Emphasis added.]

"PaANNUITY.COM has the knowledge and experience to guide you and your clients in the right direction. Matthew Parker, the President of the company is a Certified Elder Law Attorney. He specializes in helping his clients obtain Medicaid benefits for LTC. He was the attorney for the community spouse in James v. Richman, the case that serves as the precedent for the use of community spouse Medicaid Qualifying Annuities in Pennsylvania.

"If you are a Pennsylvania Elder Law or Estate Planning attorney whose clients may be able to benefit from the purchase of a Medicaid Qualifying Annuity, PaANNUITY.COM is your trusted source."

Law Office of Adam S. Bernick, 2047 Locust Street Philadelphia, PA 19103 http://www.bernicklaw.com/, information extracted July 26, 2010.

"Planning is Critical: Rising costs and increasingly complex regulations make it critical to have a skilled Medicaid planning attorney help you evaluate your options. **Medicaid planning involves finding ways to preserve assets while receiving medical care. Ideally, this process is undertaken years in advance. However, even if an emergency arises, and you or a loved one are forced to go from the hospital into a nursing home, there are ways we can help you**. [Emphasis added.]

"What if I Don't Plan in Advance?: Even if it is too late to shelter all your assets, our skilled Medicaid planning lawyer can help. For example, you can learn from him what medical, personal, and nursing home expenses can be reimbursed, or are exempt from spend-down requirements. We can investigate nursing home plans that preserve some assets. Some techniques that we have used in Medicaid planning include reverse mortgages and annuities. Other approaches may include selling some assets, for which our attorney hires an appraiser on your behalf. Finally, if you or your family is required to reimburse the state for Medicaid expenses, our skilled attorney has been successful negotiating for a lesser amount. In all of these efforts to protect your assets, our skilled Medicaid planning lawyer attends hearings, reviews documents, and works hard to help you protect those assets you worked so hard to accumulate." (http://www.bernicklaw.com/PracticeAreas/Medicaid-Planning.asp)

Cantor & Meyer, P.C., 2 S. Orange Street (above the Sovereign Bank branch), Suite 201, Media, PA 19063, information extracted July 26, 2010 from http://www.cantormeyer.com/PracticeAreas/Elder-Law.asp.

"Many people fear that nursing home care will deplete their estate and deny their children an inheritance. **With advance planning under the advice of qualified legal counsel, it is possible to preserve assets for a spouse or heirs and still receive quality care**. Elder law attorney Neil Meyer will sit down with you to explore your options." [Emphasis added.]

"Couples are typically required to spend down nearly all of their assets to qualify for Medicaid coverage for nursing home care. Recent changes in federal law have made it harder -- but not impossible -- to gift assets to children, transfer property, or preserve wealth in trusts. Neil Meyer advises clients on options to legally safeguard assets, including gifting within the allowable time frame, and "In Trust For" accounts that retain limited control of assets."

Sikov and Love, PA, 14th Floor, Lawyers Building, 428 Forbes Avenue Pittsburgh, PA, information extracted July 26, 2010 from http://www.sikovandlove.com/PracticeAreas/Medicaid-Medical-Assistance.asp.

"Our long term care planning services include helping you prepare a Medicaid plan that is specific to your personal situation. **A plan for an individual with modest assets can be quite different from a plan for a person with substantial assets**. We thoroughly evaluate your entire situation--including income, savings, and assets. We are highly skilled in helping individuals protect assets and qualify for Medical Assistance." (Emphasis added.)

Zachariah & Brown Elder Law Attorneys, 4500 Walnut Street, McKeesport, PA 15132, information extracted July 26, 2010 from http://www.pittsburghelderlaw.com/medicaidplanning.html.

"**Typically we can preserve somewhere between 40% to 100% of the assets and assist in obtaining Medicaid much faster**." [Emphasis added.]

"For Single Individuals there are 30 strategies which can be employed to protect assets, married couple, there are 60. We walk you through each of them to see which ones work for you and appeal to you. At the end of the meeting we know what is involved and can quote you a flat fee for our services. This fee will be your only legal bill for service. Medicaid application and filing fees are extra."

"We first begin by making final gifts in order to bring the estate down to the allowable $2,400.00 level. There is a fee for this which is in addition to the initial fee."

"Timing is very important. Each month that passes can cost you thousands of dollars. Many people think to start planning 3 years ahead of time, but the truth is that the earlier you start, the more you can protect!"

Levandowski & Darpino, LLC, 17 Mifflin Ave., Suite 202, Havertown, PA 19083, information extracted July 26, 2010 from http://www.levandowskidarpino.com/medicaid.php4.

"For all practical purposes, in the United States the only social 'insurance' plan for long-term institutional care is Medicaid. . . . Medicaid . . . is a form of welfare - or at least that's how it began. So to be eligible for Medicaid, you must become 'impoverished' under the program's guidelines."

"**Those who are not in immediate need of long-term care may have the luxury of distributing or protecting their assets in advance. This way, when they do need long-term care, they will quickly qualify for Medicaid benefits**." [Emphasis added.]

"Levandowski and Darpino specializes in elder law and elder care planning. Let us help you to:

* Plan in advance to limit the devastating expense of LTC.
* Protect your home and life savings.
* Preserve the financial security of your spouse and dependents.
* Legally transfer assets to children and grandchildren.
* Minimize private payments of nursing home costs.
* Maximize public benefits from Medicare, Medicaid, and other programs.
* File the complicated Medicaid application. . . .

"If you wait, it may be too late to take some of the steps available to preserve your assets." (http://www.levandowskidarpino.com/elder-law-attorney.php4)

Dugalic & Landau, PC, 901 Carroll Road, Wynnewood, PA, 19096, information extracted July 26, 2010 from http://www.dugalicandlandau.com/PracticeAreas/AssetProtection.aspx.

"There are a number of Medicaid asset protection strategies that can be utilized in order to engage in Medicaid asset protection planning. One, in particular, is a Medicaid asset protection trust. This type of trust is an irrevocable trust meaning that you would have to give up control of your assets to a trustee named in the trust. The trustee is able to be appointed by you but once the assets are transferred to the trust that trustee now controls the assets for your benefit. In addition, there are rules and regulations that must be followed in order to shield the assets of a Medicaid asset protection trust from an attempt by Medicaid to spend them down in order to qualify for Medicaid benefits.

"**Protecting your assets from a Medicaid spend down requires you to take action now regarding your Medicaid asset protection planning**. There are time limits as to when certain planning no longer becomes a viable option in the protection of assets. You should be aware of these time limits in order to put yourself in a position to protect your assets from a Medicaid spend down. [Emphasis added.]

"The law office of Dugalic & Landau, PC offers valuable Medicaid asset protection services. Call us today in order to speak with a Medicaid asset protection attorney about how implementing Medicaid asset protection strategies and protecting your assets can help you

preserve the wealth you have worked so hard to obtain. Our Medicaid asset protection attorneys are experienced and knowledgeable in legal asset protection and Medicaid asset protection planning. Call today in order to speak directly with a Medicaid asset protection lawyer who will help you understand and implement a plan that will enable you to protect your assets."

Appendix C: Queries Listed

Questions we would like Pennsylvania Medicaid officials to answer are compiled here:

Query: How do Pennsylvania Medicaid officials justify their confidence that rebalancing program services from dominantly institutional care (with its economy of scale) to mostly home and community-based care (dispersed and labor-intensive) will save money in spite of the evidence adduced here to the contrary?

Query: How can Medicaid sustain access to and quality of long-term care as the baby-boomer generation ages without paying adequate reimbursement levels to long-term care providers at all levels of care?

Query: As Pennsylvania Medicaid rebalances from nursing home care citizens would rather avoid to home and community-based care they'd much prefer, how can the program avoid "reverse cost-shifting" away from free care currently provided by families and private LTC financing toward Medicaid?

Query: Given that eligibility for Medicaid-financed long-term care is easy to obtain without significant personal spend down after expensive, extended care is needed, wouldn't it follow that the public may be desensitized to the risk and cost of long-term care? Could that explain why most people fail to plan, save, invest or insure for LTC?

Query: How do Pennsylvania Medicaid officials justify or rationalize leaving potential estate recoveries uncollected from deceased recipients when "It is their children, after all, who stand to inherit whatever property remains after the costs of long-term care are paid and who currently reap the windfall of Medicaid subsidies." (USDHHS Inspector General Study, 1988)

Query: Is the purpose of Medicaid to ensure access to quality care for people in need or to shelter baby-boomer inheritances from the cost of their parents' long-term care?

Query: Why should anyone expect the public to purchase private long-term care insurance when they can ignore the risk and cost of long-term care, avoid the premiums for private coverage, wait to see if they ever need expensive extended care, and if they do, transfer the cost to Medicaid without significant asset spend down or estate recovery liability?

Query: What measures can Pennsylvania Medicaid officials undertake to change the program from the dominant financer of long-term care for nearly all citizens that it has become into a high-quality, financially viable, social safety net for people most in need?

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Interviewees and Respondents

1. Michael A. Baker, Director, Brokerage & Affinity Markets, Target Insurance Services
2. Ronald L. Barth, President/CEO, Pennsylvania Association of Non-Profit Homes for the Aging
3. Eric Beittel, Certified Financial Planner, Enders Insurance Associates
4. Colin Blair, LTC Specialists, URL Financial Group
5. Donna Boyar, Director of Community Services, JEVS Supports for Independence
6. James Boyar, Director of Attendant Care, JEVS Supports for Independence
7. Peter P. Camacci, Jr., Director, Bureau of Accident and Health, Pennsylvania Insurance Department
8. Chris Coady, Senior Director of Marketing, United Security Assurance Company of Pennsylvania
9. Jeffrey Cooper, Managing Partner, Great Oak Lending Partners
10. Gwenn Dando, Assistant State Director, National Federation of Independent Business
11. Samuel Denisco, Director, Government Affairs, Pennsylvania Chamber of Business and Industry
12. Melissa Fox, Deputy Press Secretary, Pennsylvania Insurance Department

13. Ronald A. Gallagher, Jr., Deputy Insurance Commissioner, Pennsylvania Insurance Department
14. David J. Gingerich, Special Assistant to the Secretary, Department of Aging
15. Beth Greenberg, Regulation Affairs & Research, Pennsylvania Association of Non-Profit Homes for the Aging
16. Anne Hart, Consultant, Bravo Group
17. Susan Heinle, Owner/President, Visiting Angels Living Assistance Services
18. Vicki Hoak, Executive Director, Pennsylvania Homecare Association
19. Dale Hornberger, Human Services Program Specialist, Department of Public Welfare
20. Ted Janeczek, Executive Vice President & Chief Financial Officer, Country Meadows Retirement Communities
21. Stephen J. Johnson, Deputy Insurance Commissioner, Pennsylvania Insurance Department
22. Eric Kiehl, Public Affairs Director, Pennsylvania Homecare Association
23. Erica Koser, Intern, Pennsylvania Association of Non-Profit Homes for the Aging
24. Gregory S. Landes, Licensed Representative, United Security Assurance Company of Pennsylvania
25. Holly Lange, Senior Vice President, Philadelphia Corporation for Aging
26. Crystal Lowe, Executive Director, Pennsylvania Association of Area Agencies on Aging
27. Carl Marrara, Issue Manager, Pennsylvania Business Council
28. Anna McCauslin, Government Relations Representative, Manufacturer & Business Association
29. W. Russell McDaid, Vice President & Chief Public Policy Officer, Pennsylvania Association of Non-Profit Homes for the Aging
30. Robert J. McNamara, Director, Policy and Strategic Planning, Departments of Public Welfare/Aging
31. Diane Menio, Executive Director, Center for Advocacy for the Rights and Interests of the Elderly
32. Carolyn Morris, Director, Bureau of Accident and Health, Pennsylvania Insurance Department
33. Ward R. Moyer, Agent, Genworth Financial
34. Carole Procope, Director of Third Party Liability, Department of Public Welfare--Estate Recovery Program
35. Ray Prushnok, Deputy Secretary for Aging, Department of Aging
36. John Radford, Senior Advisory Team Member, Kistler Tiffany Benefits
37. Yonise Roberts Paige, Chief, Life & Health, Market Action Examiner, Pennsylvania Insurance Department
38. Ross Schriftman, Employee Benefits Consultant, Kistler Tiffany Benefits
39. Dennis L. Shalters, Financial Representative, Northwestern Mutual Financial Network
40. Dale Shuey, Reverse Mortgage Loan Officer, Fulton Mortgage Company (Fulton Bank)
41. Rick Stoner, Supervisor, Bureau of Accident and Health Forms, Pennsylvania Insurance Department
42. John Whitman, Executive Director, The TRECS Institute
43. John Young, Reverse & Forward Mortgage Consultant, American Home Bank

LTC Legislative Briefing Attendees

On Thursday, July 15, 2010, Stephen Moses delivered a one-hour briefing on long-term care financing and the CLASS Act for members and staff of the Pennsylvania legislature. Vince Phillips of Phillips Associates, who represents the Pennsylvania Association of Health Underwriters, planned and organized the event. Attendees were promised and will receive a copy of this report.

1. Valerie Barowski, PA House Health and Human Services Committee (R)
2. Greg Beckenbaugh, Senator Waugh's Office (R)
3. Maureen Bereznak, Media Relations (R)
4. Nancy Cole, Representative Stern's Office (R)
5. Don Craine, Jr., Phillips Associates
6. Lee Derr, Senator Eichelberger's Office (R)
7. Gail Dull, PA House Aging and Older Adult Services (R)
8. Allison Dutrey, Senator Don White's Office (R)
9. Matt Franchak, Senator Stack's Office (D)
10. Hon. Tim Hennessey (R)
11. Jim Hertzler, Senator O'Pake's Office (D)
12. Cheryl Hull, Policy Office and Senator Erickson's Office (R)
13. Nilda Jenkins, Representative Ken Smith's Office (D)
14. Neeka Jones, Senator Hughes' Office (D)
15. Kathy McCormal, PA House Insurance Committee (R)
16. Arthur McNully, PA House Insurance Committee (D)
17. Vince Phillips, Phillips Associates
18. Charles Quinnan, PA House Aging and Older Adult Services (D)
19. Mark Rosenstein, Senator Orie's Office (R)
20. Geri Sarfert, Senator Mensch's Office (R)
21. Amy Segina, The Middletown Home
22. Judy Smith, PA House Insurance Committee (R)
23. Owen Thomas, Senator Vogel's Office (R)
24. Gail Wilkinson, PA House Insurance Committee (R)
25. Katie Zerfuss, Representative Mundy's Office (D)

About the Author and the Center for Long-Term Care Reform

Stephen Moses is the President of the Center for Long-Term Care Reform. Along with then-Executive Director David Rosenfeld, Moses founded the Center for Long-Term Care Financing in April, 1998 to educate others about the problems which plague America's long-term care financing system and to advocate public policy that targets our scarce public resources to the neediest, while encouraging everyone else to plan ahead for the risk of expensive long-term care. The Center's efforts continue to expand upon Moses' and Rosenfeld's prior work at LTC, Incorporated and Moses' seminal research as a senior analyst for the Health Care Financing Administration and for the Inspector General of the U.S. Department of Health and Human Services.

Through frequent speeches to national audiences, hard-hitting reports, and its popular "LTC Bullets" on-line newsletter, the Center for LTC Financing quickly became the preeminent advocate for a rational and financially viable long-term care financing system. In February, 2000 the Center became a 501(c)(3) charitable non-profit organization. The Center for Long-Term Care Financing was succeeded by the Center for Long-Term Care Reform, Inc in May, 2005. Although the operating structure has changed to "for profit," or perhaps more accurately "no profit," Moses' mission for the Center for Long-Term Care Reform remains the same: to ensure quality long-term care for all Americans.

More information is available at www.CenterLTC.com

The author wishes to thank Joshua Hoerner, summer research fellow with the Commonwealth Foundation, for his assistance on this report.

About the Commonwealth Foundation

The Commonwealth Foundation is an independent, non-profit research and educational institute. The Commonwealth Foundation works every day to effectively demonstrate the societal benefits of individual liberty, free enterprise, and limited, accountable government so that key decision makers in Pennsylvania embrace them.

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