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"Bias pervades America's long-term care service delivery and financing system."

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Bias in Long-Term Care Favors Nursing Homes, Government

Written By: Stephen A. Moses
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Bias pervades America's long-term care (LTC) service delivery and financing system.

The system is biased in favor of nursing home care--which Medicaid pays for but which most people would rather avoid. It is biased against home- and community-based care--which Medicaid is much less likely to pay for, but which most aging Americans prefer when they require LTC.

Perhaps most importantly, LTC in the United States is biased toward public financing (Medicaid and Medicare) and against private financing alternatives such as long-term care insurance (LTCi) and home equity conversion.

Government Subsidies

Government pays, directly or indirectly, for the vast majority of all paid LTC nationwide. According to the latest data available from the Centers for Medicare and Medicaid Services (CMS), Medicaid paid 44.3 percent of nursing home costs in 2004, and Medicare paid 13.9 percent.

On top of that, more than half of the 27.9 percent of nursing home costs paid "out of pocket" were really just contributions from the Social Security income of people already on Medicaid. Thus, direct or indirect government payments accounted for nearly 75 percent of all nursing home expenditures.

Similarly, Medicaid and Medicare paid 69.7 percent of all home health care costs in 2004.

Private health insurance contributed only 7.8 percent of financing for nursing home care, and 12 percent of home health care costs.

It's not surprising private insurance plays such a small role in financing nursing home and home health care. Only 15 percent of seniors and 5 percent of baby boomers have purchased private LTCi.

According to a study by the National Bureau of Economic Research in 2004, Medicaid-financed long-term care crowds out two-thirds to 90 percent of the potential market for private LTCi.

Pro-Government Bias

Bias for public financing and against private financing is deeply ingrained in America's long-term care system. That won't change as long as government pays for most long-term care, even for middle-

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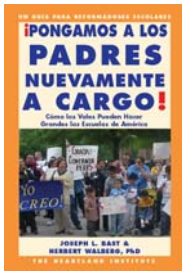
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**HEARTLAND
INSTITUTE**

19 South LaSalle Street
Suite 903
Chicago, IL 60603
312.377.4000
think@heartland.org

Web Site Manager
Latonya Harris
lharris@heartland.org



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system. That won't change as long as government pays for most long-term care, even for middle-income and affluent people.

Good public policy demands tough love. In this case it means targeting Medicaid LTC to those truly in need and encouraging everyone else to plan early to save, invest, or insure for long-term care.

The new Deficit Reduction Act of 2005 (DRA) constraints on Medicaid eligibility, the Administration on Aging's "Own Your Future" Long-Term Care Awareness Campaign, and the Sisyphean efforts of LTCi agents to sell their product in spite of the obstacles they face are progressing ... slowly but surely.

Stephen Moses (smoses@centerltc.com) is president of the Center for Long-Term Care Reform in Seattle.

For more information ...

"The Interaction of Public and Private Insurance: Medicaid and the Long-Term Care Insurance Market," by Jeffrey R. Brown and Amy Finkelstein, National Bureau of Economic Research, December 2004, <http://papers.nber.org/papers/w10989>

Own Your Future Long-Term Awareness Campaign, <http://www.aoa.gov/LTC/index.asp>

"Personal Health Care Expenditures, by Type of Expenditure and Source of Funds: Calendar Years 1997-2004," Centers for Medicare and Medicaid Services, table 10, <http://www.cms.hhs.gov/NationalHealthExpendData/downloads/tables.pdf>

