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Great moments in unintended LTC consequences

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Reason.com publishes a video feature called "Great Moments in Unintended Consequences." Each episode features three problems, three "solutions," and comical coverage of the unanticipated results.

For example, "The Luxury Yacht Tax." The year: 1990. The problem: the national debt is exploding. The solution: a 10% luxury tax on expensive boats.

Narrator: "Sounds like a great idea with the best of intentions. What could possibly go wrong?"

It turns out that while wealthy people buy yachts, it's usually middle-income people who make them. This tax plan cut sales of luxury boats by 70%, destroyed hundreds of thousands of middle-class jobs, and resulted in a net loss of tax revenue to the government.

Many episodes of this feature are equally amusing and thought-provoking. They got me thinking about "Great Moments in Unintended *Long-Term Care* Consequences."

The year: 1965.

The problem: People are living longer, dying slower and in desperate need of more long-term care.

The solution: Provide Medicaid-financed nursing home care covering room and board as well as custodial and skilled care for anyone who can't afford it otherwise and with no limit, for the first 15 years, on transferring assets to qualify.

"Sounds like a great idea with the best of intentions. What could possibly go wrong?"

With free long-term care available after they need it, people didn't bother to save, invest or insure for that big risk and cost when they were young and healthy enough to prepare.

Once they needed care, most discovered they could get Medicaid to pay as long as their incomes were below the cost of a nursing home and they held their assets in easily convertible exempt form, such as a home, car, business, IRAs, prepaid burial funds, term life insurance, household goods or personal belongings.

Demand surged. Medicaid nursing homes filled to 95% capacity in the 1980s. Private pay census at market rates plummeted while Medicaid residents, reimbursed at less than the cost of care, surged. Care quality suffered. You can't expect Ritz Carlton care for Motel 6 rates.

Medicaid costs exploded, so the government tried to clamp down on eligibility by penalizing asset transfers to qualify, requiring estate recoveries and capping the home equity exemption. But Medicaid planning lawyers dodged these restrictions, and expenditures continued to skyrocket.

Easy access to free or subsidized nursing home care stunted a private-pay market for home care and assisted living for decades until welfare-financed institutional care got such a dubious reputation that people were willing to spend their own money to stay out of a nursing home.

Potential private sources of long-term care financing, such as home equity conversion and private LTC insurance, dried up. Why spend your own money when Uncle Sam is so eager to pay for long-term care, room and board if you ever need them?

So, today we approach the second third of the 21st century, when boomers start turning 85 and blow the lid off medical and LTC costs just as the Social Security and Medicare trust funds run out, forcing those programs to cut their payments.

We find ourselves overly dependent on welfare-financed institutional long-term care with untrained, unpaid family and friends struggling to care for loved ones and little hope the system will do anything but deteriorate further.

It's all because well-intentioned academics, policymakers and politicians wanted to help by providing more long-term care back in 1965, then kept on "fixing" it until it became the Rube Goldberg mess it is today, and never asked, much less answered the key question: "What could possibly go wrong?"

But at least they've learned their lesson and no longer want to turn long-term care over to more government financing and regulation. Right? Alas, no.

Most of the recommendations coming from analysts and think tanks these days call for even more government involvement, including billions of dollars for Medicaid home-and-community based care and new, compulsory, payroll-funded, government-regulated entitlement programs with "trust funds" bound to be diverted to current spending like the ones we have already.

That sounds like doubling down on the same policies that caused long-term care's problems in the first place. What could possibly go wrong?

There is a better way. For a fuller explanation of what did go wrong with long-term care and how to fix it, read *Medicaid and Long-Term Care*.

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