GUEST COLUMNS

How government prevaricates about long-term care

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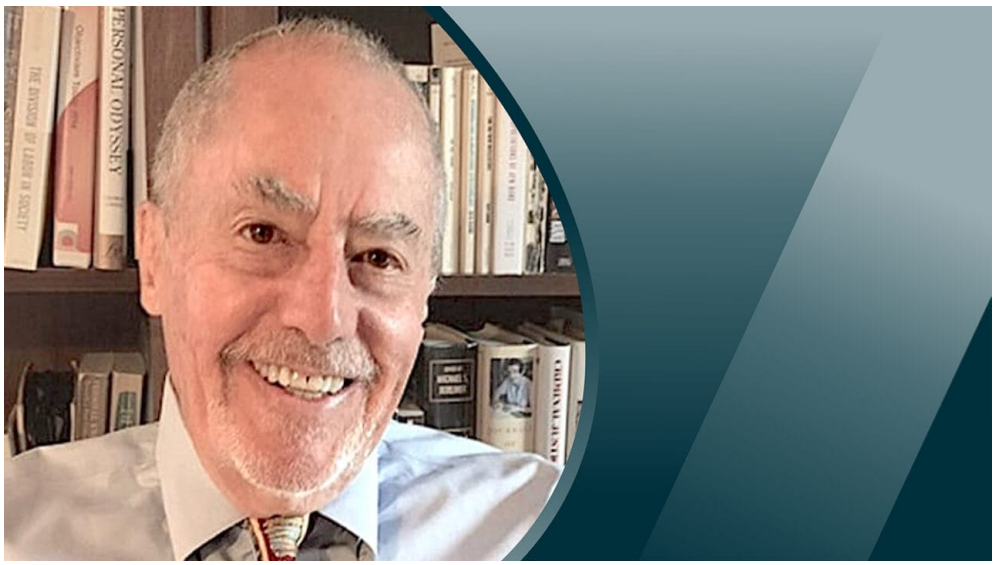

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SHARE

Most federal officials and the analysts who advise them are progressives. They prefer public over private sector solutions for most social problems. Sometimes progressives bend the truth to tip public opinion in their favor. That happens with Medicaid, Medicare and long-term care for the elderly.

Government programs, especially Medicaid (42.8%) and Medicare (17.2%), dominate LTC spending. Most of the remainder comes from private insurance

(8.9%) and other public programs (19.0%). Curiously, out-of-pocket LTC expenditures are only 12.5%.

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I say "curiously," because conventional wisdom holds that aging Americans in large numbers expend their life's savings on LTC, ending up on Medicaid after they spend down into impoverishment. If that's true, wouldn't out-of-pocket costs (OOPs) be higher than one-eighth?

In fact, the effect of OOPs is even less and the impact of Medicaid expenditures, far greater, than the government data imply. But to see why this is true, we must deconstruct what these payment sources mean for the LTC marketplace.

Take OOPs for example. Of the 12.5% government reports as out-of-pocket expenditures, half or more are not spend down of savings. Rather, they are income, mostly from Social Security, that people already on Medicaid are required to contribute to offset Medicaid's cost of their care.

This is how Social Security, a financially vulnerable entitlement program, props up Medicaid LTC making its cost appear less while giving the impression that OOPs are higher. Income *is* an OOP expenditure, but it does not draw down savings as OOP is often assumed to entail.

Besides making Medicaid LTC look more valuable than it is, channeling private income through Medicaid hurts LTC providers. They receive payments at Medicaid rates which are only 70% of private rates on average resulting in poor wages, staff shortages and quality problems.

Medicare, another imperiled entitlement program, also props up Medicaid LTC artificially. By paying very generously for a small proportion of nursing home residents, Medicare enables Medicaid to pay very low rates, often less than cost, for a majority of people in nursing homes.

This is how Medicare makes Medicaid appear more impactful in LTC funding than its relatively low reported share of LTC expenditures implies. But what will

happen to Medicaid LTC when Medicare faces statutory cuts in 2031 and Social Security benefits drop 23% by law in 2034?

Another way government LTC statistics deceive is by counting non-LTC costs as though they were OOPs. Nursing home costs are mostly paid by Medicaid while their OOPs are very small. On the other hand, continuing care retirement communities (CCRCs), comprised mostly of independent and assisted living, are largely private pay. Medicaid contributes little.

Nevertheless, in 2011, the Centers for Medicare & Medicaid Services redefined the nursing home spending category to include CCRCs. This had the effect of making Medicaid expenditures appear much lower and OOPs, much higher, than under the previous definition. But in this case the OOPs being measured are mostly for room and board, not LTC.

Researchers are sometimes complicit in the misrepresentation of Medicaid LTC and OOPs. They include non-LTC assisted living or residential costs in their definition of LTC OOPs. This has the effect of making Medicaid's share of costs appear lower and OOPs', higher.

Finally, by defining poverty to exclude in-kind contributions such as Medicaid LTC benefits, government statistics make the proportion of people in poverty appear higher than it is. This distortion supports the intentional, but mistaken, impression that LTC OOPs cause widespread impoverishment.

Bottom line: Medicaid covers most expensive long-term care. Out-of-pocket LTC costs are very small. Consumers have little financial incentive to plan early and save, invest or insure for LTC. As long as government data falsely suggest otherwise, little progress will be made to improve LTC, whether by public or private means.

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