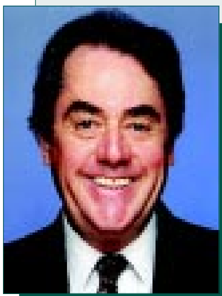

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Long Term Care Lemmings

Most of us define the lemming as a short-tailed Arctic rodent. However, the *New Shorter Oxford English Dictionary* offers this secondary definition: "A person bent on a headlong rush, especially toward disaster; a person unthinkingly joining a mass migration; an unthinking person."

Who are the long term care lemmings?

LTC Lemming 1: The Government. By paying for 80 percent of all patient days in America's nursing homes—at a rate often less than the cost of providing the care—state and federal Medicaid programs have nearly destroyed the nursing home industry, impeded the development of a market for home and community-based services, chilled the demand for private long term care insurance, ***and*** anesthetized the public to the risk and cost of long term care. Yet, our government marches on toward disaster instead of targeting Medicaid benefits to the poor and providing real long term care insurance tax deductions to everyone else.

LTC Lemming 2: The Public. Few people take the risk of long term care seriously until it's too late to save, invest or insure. Then, to avoid paying privately for long term care, they take the path of least resistance, qualify easily for Medicaid nursing home care without spending down if they are middle class, or impoverish themselves artificially with the aid of a lawyer if they're affluent. Most frail elderly don't know what has hit them until their options are gone. Yet, Medicaid planners continue to do a land office business; boomer heirs collect Medicaid financed inheritances; and the nursing home based, welfare financed LTC system drifts ever closer to complete collapse.

LTC Lemming 3: Senior Advocates. The General Accounting Office and the Congressional Budget Office (not to mention nearly every credible economist) have been warning for years that America's social safety net is a huge, unfunded liability likely to collapse when the baby boom falls into it. Yet senior advocacy groups like AARP and Families USA blithely advocate expanding Medicare and Medicaid financing of long term care and prescription drugs. That's like adding deck chairs to the Titanic after the little incident with the iceberg.

LTC Lemming 4: Long Term Care Providers. Nursing homes relied so heavily for so long on stingy, but easy Medicaid and Medicare financing that they are now incapable of attracting enough private payers to remain solvent. Assisted living facilities, stricken by slow fills and meager profitability, are tempted by the same "siren's call" of government financing that lured nursing homes down a primrose path

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of constricting reimbursements and growing regulation. Yet, the long term care providers continue to spend most of their lobbying dollars begging for higher government reimbursements or relief from regulations instead of insisting on Medicaid eligibility controls and private financing incentives.

LTC Lemming 5: Long Term Care Insurers. Lured by promising demographics, dozens of carriers, hundreds of brokers, and thousands of agents have tried to sell long term care insurance, only to give up and exit the market. Most of those who continue to sell the product are less than thrilled by the return on their investment. Yet, the insurance industry continues to ignore the primary reason for the market's disappointing results—the government has been giving away their product since 1965. Even with full above-the-line tax deductibility, the public policy basket into which insurers have put all their eggs, most people won't buy long term care insurance if they can ignore the risk, avoid the premiums, and get the government to pay.

Forgive the mixed metaphor, but what America needs is a pied piper to lure the lemmings of long term care away from their well-worn course of self-destruction. It doesn't take a genius to understand the problem once you put the pieces together. Here's an analysis and a solution in a nutshell.

In 1965, recognizing a problem with long term care, Medicaid and Medicare began paying for nursing home care with every good intention. The public concluded that long term care is free but that it means going to a nursing home, which they put off as long as possible at great financial and emotional cost. Providers jumped on the government-financed gravy train, paved the country in nursing homes, and had no incentive to offer home care or assisted living. Likewise, long term care insurance could get no traction in the marketplace because nursing home care was free and home care or assisted living was unavailable.

That gets us up to 1990, at which time welfare financed nursing home care began to have such a bad reputation that people actually started spending their own money to get home care, assisted living, adult day care, and geriatric care management. Once the public began paying out of pocket for some long term care, private insurance started to sell somewhat more readily.

That brings us to the current time. Today, we have a rapidly disintegrating balance between public denial of a long term care risk enabled by continued government financing and a growing realization (especially on the front edge of the baby boom generation who are suffering through long term care crises with their own parents) that access to quality care at the most appropriate level requires an ability to pay privately. The more the status quo disintegrates, the more private financing options such as long term care insurance and home equity conversion will prosper. The challenge is to achieve the latter goal without paying the former price.

That will require creative public policy changes that turn the perverse incentives in the current system upside down and replace them with positive incentives for people to plan early and save, invest or insure for long term care. The needed change is to target government-financed long term care to the genuinely needy and provide incentives for everyone else to take personal responsibility.

One way to do it is to realize that people with substantial incomes and large Medicaid-exempt assets are not poor. They just have a cash flow problem. Instead of luring them into Medicaid nursing homes with generous exemptions and tempting loopholes, give them lines of credit on their estates—repayable after death—that will enable them to purchase quality care in the private market with dignity and stay off public assistance. Why?

When people find their assets genuinely at risk for long term care, more will take the long term care risk seriously, prepare early, and pay privately for long term care. More will buy long term care insurance, and that market will boom. More will tap the equity in their homes to pay for long term care, and home equity conversion will boom. Taxpayers will find relief because fewer people will depend on Medicaid.

In time, Medicaid will have more money to provide a wider range of better services to a smaller number of genuinely needy recipients. Home care, assisted living, and nursing home providers will have more private payers and be less dependent on public financing. Seniors will retain more choices and independence. Boomer heirs will see the light and seek private LTC insurance protection. Everyone wins, except perhaps the Medicaid planners, and who would object to their assuming the role of the LTC lemmings? o