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"What if America could wave a legal wand and make the huge government cost of long-term care shrink dramatically? Evidently, it's possible, so I attended two conferences to find out how."



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Analysis: Long-Term Care ... on the House

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What if America could wave a legal wand and make the huge government cost of long-term care (LTC) shrink dramatically? Evidently, it's possible, so I attended two conferences to find out how.

More on that after we lay the groundwork.

LTC has a "long tail"--it's a service consumers have to start thinking about and planning for long before they need it, in order to have adequate coverage when they do.

The insurance industry understands that. LTC insurers have to underwrite policies, collect premiums, set aside reserves, and earn a good economic return on those reserves for decades. Otherwise, they can't pay claims when policy holders start needing expensive, extended home care, assisted living, or nursing home care.

Unfortunately, the government doesn't get it.

Medicaid (a means-tested public assistance program) and Medicare (its social insurance sister program) pay for the vast majority of all formal LTC services in the United States. Yet Medicare has a phony "trust fund" with nothing in it except IOUs, and Medicaid is totally pay-as-you-go out of general tax revenues.

Neither program is setting aside anything real for the future.

Using Home Equity

Where will the money come from to pay for publicly funded LTC when 77 million Baby Boomers are drawing down Social Security, Medicare, and Medicaid instead of paying in?

It will have to come out of the productive economy in the form of taxes to support those programs. The worry is that a level of taxation that high will kill the very economy that generates the profits to tax.

So, to the rescue, SuperHouse!

As it turns out, older people in the United States collectively have around \$2.5 trillion in home equity,

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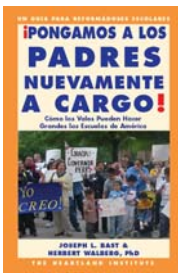
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much of which they could convert to cash flow through reverse mortgages, to pay for their LTC or subsidize their incomes so they could afford private LTC insurance.

They don't do it, of course, for a very simple reason: Medicaid exempts the home and all contiguous property, and Medicare doesn't care how wealthy you are. So this resource lies fallow, those public programs shudder under the fiscal burden, and the private markets for LTC insurance and reverse mortgages that could help fund LTC languish.

Creating Incentives

How to unleash home equity as the solution to Medicaid and Medicare's LTC woes? Simple: Reduce or eliminate Medicaid's home equity exemption, which is now at \$500,000 to \$750,000, depending on the state.

With home equity at risk, more people will use reverse mortgages to pay for LTC--or better yet, they'll plan early and buy LTC insurance.

Either way, the private markets for these products will surge; tax revenues will come into state and federal treasuries instead of going out; and people will get better LTC when they pay for it themselves instead of relying on bankrupt public programs.

Using Reverse Mortgages

Is it feasible? I attended the National Reverse Mortgage Lenders Association's (NRMLA) Western Regional Conference in February to learn more about their product and its potential.

In a nutshell, reverse mortgages allow people age 62 or older to pull money out of their home equity in a lump sum, monthly payment, or line of credit without having to pay back the principal or interest until after they die, sell the house, or move out permanently.

Reverse mortgages have a reputation for being expensive compared to "forward mortgages," so they're not appropriate for short-term loans. But when you consider that borrowers are guaranteed the proceeds of their loan and the use of their home for as long as they live there--even if the amount borrowed exceeds the value of the underlying collateral some day--some extra cost seems warranted.

Finding a Market

Barton Johnson, president of Financial Freedom, one of the larger companies in the reverse mortgage business, said, "Roughly 300,000 reverse mortgage loans have been made over the past 20 years. With in excess of 25 million senior households today, the industry has penetrated barely 1 percent of the eligible market."

NRMLA President Peter Bell added, "I think that in the future we'll see more products that integrate reverse mortgages with home maintenance and, perhaps, home care services. In effect, these services would be paid for by the proceeds of a reverse mortgage--with a single provider coordinating the package."

Bottom line: The reverse mortgage industry is ready, willing, and able to step into the LTC financing breach.

Winning Converts

But how about the senior advocacy community that usually wants nothing to do with private industry and lobbies incessantly for more government funding of LTC?

To check out that question, I attended a meeting of the Joint Conference of the American Society on Aging (ASA) and the National Council on Aging (NCOA) in Chicago in March.

Maybe times are changing. Perhaps with the fiscal vise closing on their favorite public programs, senior advocates are finally opening their minds and their meetings to market-based financing alternatives. I attended an excellent session on "LTC Partnership" programs, a newly reauthorized way to incentivize private LTC insurance coverage by forgiving some Medicaid spend-down liability.



But more to the point of this article, the session on home equity conversion--which includes reverse mortgages but is not limited to them--was truly exceptional.

"I've watched the reverse mortgage market develop at a glacial pace for two decades," NCOA President Jim Firman said. "We're finally close to the tipping point with over \$2.5 trillion in home equity held by seniors. There is a growing awareness this asset could help people age in place. No one expects a new federal program to ride to the rescue anymore. We need cooperation between the private, public, and voluntary sectors."

That sounds very promising, and indeed, NCOA has sponsored invaluable research on the potential of home equity conversion to help fund long-term care.

Resisting Change

But it's not all sunshine and roses between senior advocates and the private sector.

On a "Panel of Pundits" at the ASA/NCOA meeting, Firman congratulated the American Association of Retired Persons (AARP) and the National Committee to Preserve Social Security and Medicare for being "in the vanguard beating back privatization."

AARP lobbyist John Rother said, "College students question whether government can be counted on. We're not helping the cause of social justice by letting future leaders become convinced that programs won't be there for them."

Speaker after speaker pooh-poohed the idea that Social Security's and Medicare's \$86 trillion "infinite horizon" unfunded liabilities were really such a big problem.

To ignore those huge expenses and empty coffers is irresponsible. But at least people who refuse to confront the reality that Medicare, Medicaid, and Social Security haven't got the trillions of dollars it would take to fund LTC are starting to come around on the potential of getting real help from the private sector with LTC financing.

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