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GUEST COLUMNS

Long-term care's mortal risk

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JUNE 6, 2022

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Long-term and post-acute care operators have plenty to worry about. Low Medicaid reimbursements, harsher CMS regulation, caregiver shortages and the impending end to PHE accommodations, to name a few.

But fretting about all that is like obsessing over sniffles while ignoring a cancerous tumor.

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Something big is happening in the long-term care market at a deeper level but getting little attention from analysts, policymakers, and lobbyists.

While everyone is preoccupied with the profession's traditional government funding sources and the regulatory obstructions they impose, no one is paying attention to the real possibility that this long-established structure may soon collapse. Even if you think that outcome is unlikely, shouldn't someone at least be hedging the possibility? Let's ask: What are the vulnerabilities and what should be done now just in case?

Long-term care has subsisted for decades in a cozy but dysfunctional government-dominated market. Medicaid provided an endless supply of medically needy nursing home residents while paying beggarly rates and practically destroying market-rate private-pay census. Inadequate funding compounded access and quality problems inviting ever more onerous regulations.

Mandated and subsidized nursing home care crowded out private markets for home care and long-term care insurance to pay for it. Over time, patients and providers succumbed to dependency on public programs. It doesn't take a telescope to see what's coming next. Just follow the dots.

Social Security sent the message in 1935 that private retirement savings are no longer crucial. In 1965, Medicare assured older Americans they would no longer "be denied the healing miracle of modern medicine" nor would illness "crush and destroy" their savings, to quote LBJ at the signing. That same year Medicaid removed any worry about paying for long-term care by opening nursing homes to anyone who could not otherwise pay for them, aka the medically needy. Most recently, to combat the pandemic, the government borrowed, printed and monetized trillions of dollars to shower benefits and accommodations on patients and providers alike.

In a nutshell, the government attempted to improve social conditions by eliminating personal and commercial risk but created instead a new culture of dependency with far greater collective peril. Like the "Powell put" that assured investors they could buy every stock market dip because the Federal Reserve would always bail them out, the "entitlement put" convinced the public and businesses that the government's fiscal and monetary high wire act had a safety net that would always protect them from need.

But now, Social Security and Medicare share $56 trillion of unfunded liabilities. The Fed's balance sheet has ballooned to $9 trillion. The national debt is 131% of GDP. Asset inflation has enriched the wealthy while impoverishing the middle class. Consumer inflation at 40-year highs may soon complete that process.

Now consumers and companies, including long-term care providers, face the greatest danger they have confronted since those progressive protections began. Boomers start turning 85, the age at which health and long-term care costs spike, in 2031. That's five years after Medicare becomes insolvent and three years before Social Security follows suit. Of course, Medicaid has no imaginary trust fund to pretend it might run out. Medicaid is a direct draw on general funds, of which the federal government has none extra as it is running a $2 trillion annual deficit.

Most people don't realize how vulnerable Medicaid is to these anticipated shortfalls in Medicare and Social Security. Medicare reimbursements help compensate for below-cost Medicaid funding. Social security benefits, which Medicaid recipients are required to contribute toward their cost of care, account for half of the out-of-pocket costs for long-term care. When those two mega-programs are cut by 25%, the Medicaid welfare program will have to make up the difference, probably from the pockets of providers, with devastating results.

All long-term care companies and their customers are living on borrowed time… and on hollow government fiat money that has run out. Like Wile E. Coyote, they've overrun the cliff but have not yet looked down. What should be done?

It is easier to say what should not be done. Do not double down on what caused long-term care's problems in the first place — that is, central planning, public financing and punitive regulations. Most of all, avoid big new social insurance programs funded with compulsory payroll deductions that siphon private capital out of the productive economy. That would be greasing the slippery slope we're already sliding down.

Instead, we need to attract private financing and risk management into long-term care planning. If consumers could not ignore the risk and cost of long-term care, wait to see if they ever need catastrophically expensive help, and then shift the expense to taxpayers as they do now, more people would worry early, plan responsibly and save, invest or insure for long-term care. We tried to achieve that state of affairs on the back end by prohibiting asset transfers and mandating estate recovery, but it didn't work. Too little too late.

We need a completely new approach. I have some ideas about that, but they'll need to await a future article. Or call me.

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