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"Medicaid-financed LTC for the elderly is a worrisome public policy challenge because of the oncoming demographic 'Age Wave' as the Baby Boomers reach retirement."

States Can Fix Long-Term Care Problems

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How can a state cope with the growing cost of Medicaid long-term care? The Texas Public Policy Foundation in Austin tackled that question in a study I conducted for it in December 2006. The lessons we learned--explained in the Foundation's February 2007 report, "Don't Tread on Texans' Long-Term Care--Fix It"--apply to any state.

Long-term care (LTC) for the frail or infirm elderly is very expensive and is predominantly financed by Medicaid, a means-tested public assistance program, both in Texas and nationwide. Medicaid-financed LTC for the elderly is a worrisome public policy challenge because of the oncoming demographic "Age Wave" as the Baby Boomers reach retirement.

The problem is aggravated in Texas by rapid population increases and relatively high percentages of poor, minorities, older women, and the disabled elderly--the populations most likely to need long-term care.

"When I look forward to the future aging of the population, especially the growth of the oldest old, I see us straining even to cover the [relatively lower] cost of home and community-based services," said Texas Health and Human Services Executive Commissioner Albert Hawkins. "The problem is the gross numbers, not just the per-recipient costs. It's just the raw number of people getting older in Texas."

Vulnerable Funds

People who receive Medicaid long-term care benefits must contribute most of their income toward their cost of care, which means Medicaid is vulnerable to any future cutbacks in seniors' income from Social Security or private pensions. Supplemental sources of LTC financing--such as LTC insurance or reverse mortgages--are minimal in Texas, and Medicare's future contribution toward nursing home and home health care costs is vulnerable due to that program's large unfunded liabilities.

The major nursing home and home health care providers in Texas claim Medicaid reimbursements for their services are too low, impeding recruitment and retention of high-quality caregivers, and are accompanied by excessive, often counterproductive regulations.

A representative of the Texas Association of Home Care told me, "Bill Miller, the Bar-B-Que guy, pays [wait staff] \$7 per hour, but the highest wage home health workers can get is \$6.50 per hour." He noted, "In Texas we're already at the bottom of the barrel. No state pays less."

That was very discouraging to hear

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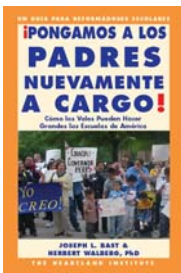
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Distorted Incentives

Texas policymakers have responded to the challenge of funding LTC by trying to cover as many people as possible in Medicaid-financed home and community-based care, which they note is less expensive per capita than nursing facility care.

But depending on Medicaid may make overall LTC costs greater, and thus such a strategy may not be cost-effective. Moreover, depending on Medicaid may discourage personal responsibility and early planning by individuals and families.

Easy Eligibility

One way to relieve the LTC financing burden on Medicaid is to increase private funding sources, but that will not happen as long as Medicaid LTC benefits are easy to obtain after the insurable event occurs.

Despite the conventional wisdom that Medicaid eligibility requires total impoverishment, the truth is most elderly Texans with a nursing home level of medical need qualify easily for Medicaid-financed LTC. Middle-income and affluent Texans routinely qualify for benefits.

Easy access in Texas to Medicaid-financed long-term care benefits crowds out the market for private LTC insurance and reverse mortgages, which might otherwise contribute significantly toward total LTC costs.

The Texas Health and Human Services Commission acknowledged as much in testimony before a joint hearing of the state Senate Committee on State Affairs and Senate Committee on Health and Human Services last October, noting, "Interplay of Medicaid in the LTC system as a whole has not supported personal responsibility for future care needs planning" and, "Medicaid coverage of LTC may serve as a disincentive to private purchase of LTC insurance or other financial planning options for LTC needs."

Legal Help

On top of Texas Medicaid's already-generous LTC eligibility rules, many Lone Star lawyers specialize in artificially impoverishing their affluent clients to qualify them for public assistance. Here's an example from an Internet ad for the Financial Aid Center for Long Term Care, last accessed in late November:

"We specialize in helping single patients qualify for Texas Medicaid assistance, while preserving most of their assets and savings for their families. ... We show you how to transfer assets and qualify for Texas Medicaid sooner. ... [W]e've helped thousands of families qualify for Medicaid while saving millions of dollars for people just like you. ...

"FACT: Single Texas Residents can legally transfer up to 100 percent of their assets to their family and still quickly qualify for Medicaid to pay for Nursing Home or other long term care expenses ... even if you are already in care."

Critical Steps

The federal Deficit Reduction Act, enacted February 8, 2006 and already implemented in large part by Texas, took some critical steps toward reducing over-utilization of Medicaid, but these measures are too little to solve the problem. Texas's important, though belated, implementation of a Medicaid estate recovery program will help recoup some of the wealth sheltered from LTC costs in the past.

But structured as it currently is, the estate recovery program will likely bring in only a fraction of the revenue it should.

Medicaid reform in general, and for LTC in particular, is highly controversial and politically sensitive. Politicians rarely win elections, and public officials seldom protect their jobs, by reducing publicly financed benefits and encouraging more personal responsibility.

Thus, "Don't Mess with Texans' Long-Term Care" may be popular short-term advice, although staying the course could become politically deadly over time. Better advice is "fix LTC" before it's too late.



Unfortunately, federal Medicaid rules make that very difficult to do.

Bottom line: To the extent possible under federal law, states should target Medicaid LTC benefits to people truly in need; prevent Medicaid from being free "inheritance insurance" by actively recovering from estates; and use some of the savings to educate and incentivize everyone else to plan early, save, invest, and insure for long-term care.

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For more information ...

"Don't Mess With Texans' Long-Term Care--Fix It," by Stephen Moses and Mary Katherine Stout, Texas Public Policy Foundation, February 2007, <http://www.texaspolicy.com>