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What works for long-term care and what doesn't

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SHARE

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The history of long-term care is best understood as a tension between public and private financing. Over and over again, the private sector has intervened to fix or improve unfortunate conditions created by the public sector. We should learn from this history and capitalize on its lessons.

In 1965, Medicaid began its huge modern role in long-term care financing and regulation. By funding only nursing home care for virtually anyone who could not afford it otherwise, Medicaid unleashed most of the problems that have plagued long-term care ever since. These include institutional bias, skyrocketing expenditures, inadequate reimbursement, quality problems and a public desensitized to the risk and cost of long-term care who end up too often on Medicaid by default.

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By the 1980s the public was dissatisfied with Medicaid nursing home care. The Federal Nursing Home Reform Act, or OBRA '87, created a national minimum set of care standards and rights for people living in certified nursing facilities. But OBRA '87 only proved the futility of solving fundamental problems like Medicaid's by means of legislation. As if wishing would make it so.

It took the private sector to address the underlying problem of consumer dissatisfaction with publicly financed nursing homes. Assisted living filled that bill by offering consumers something better even though they had to pay for it out of pocket. Luxurious, often colonial-style, private-pay, market-rate facilities with lockable rooms and numerous amenities unheard of in nursing homes cropped up all across the country.

The assisted living revolution could only go so far, however. Medicaid's generous income and asset limits allow people with middle-class incomes and substantial exempt resources such as home equity to qualify for subsidized nursing home care from the government. That option competed with paying fully out of pocket for assisted living thus reducing demand.

The assisted living business responded by accepting more Medicaid residents on the premise that even a low reimbursement is better than an empty unit. Nowadays Medicaid pays for one in six assisted living residents and assisted living is following nursing homes down a primrose path toward ever greater government dependency.

Obviously, consumers can obtain the kind and quality of long-term care they prefer if and only if they pay for it themselves. But long-term care is expensive. People who need a lot of care for a long time face a daunting financial challenge.

The obvious solution for them is to replace that catastrophic risk with an affordable insurance premium. But private LTC insurance never really caught on fully. Why? Medicaid gives away what private insurance carriers are trying to sell, a definite competitive disadvantage. What's worse, the Federal Reserve forced interest rates to zero, which reduced returns on insurance carriers' reserves and compelled premium increases from which the public rebelled. Again, public policy stymied the private sector solution.

The public's preference has always been to age in place and receive care at home. The pandemic underscored that predilection exponentially. The government tried to respond by offering more home- and community-based care through Medicaid. But decades of "rebalancing" on the much-repeated assumption that home care saves money have failed to remove Medicaid's institutional bias.

In fact, home care does not save money because it delays but does not always eliminate institutional care. The government has implicitly conceded that point by insisting on hundreds of billions of extra dollars for Medicaid home care in the Build Back Better plan.

So, as government impeded the development of a private home care market for decades by subsidizing nursing home care, the private sector has again mitigated this policy's damage. Private insurance, which today covers 23% of people receiving long-term care, pays initially 51% for home care, 18.5% for assisted living and 30.5% for nursing home care.

Amada Senior Care, a home care provider, is another example of the private sector interceding to find private home care financing. Amada seeks customers who already have private long-term care insurance and then helps them obtain the benefits they are entitled to under their policies. The company also helps clients find the needed private revenue to pay for home care through reverse mortgages and life settlements.

The lessons of long-term care history are clear. Public programs have diverted the public from responsible planning and left too many people dependent on welfare-financed nursing home care. The private sector has interceded repeatedly with preferred options such as assisted living, private insurance and home care.

The solution is very clear. Reduce dependency on Medicaid by retargeting that program to the neediest. The most important step is to eliminate or vastly reduce Medicaid's home equity exemption so people have a stronger reason to plan responsibly for long-term care. Use some of the savings to incentivize personal responsibility and planning.

As people save, invest and insure for long-term care to protect their biggest asset, home equity, billions of new private cash dollar revenue will flow into the senior care system improving access for all, rich and poor alike.

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