

***The LTC Triathlon:***  
**Long-Term Care's Race for Survival**

Presented by the

**Center for Long-Term Care Financing**

**“Dedicated to ensuring quality long-term care for all Americans”**

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## **Executive Summary**

Our parents and grandparents fought two great wars to make the world safer and more free for us. They struggled through the Depression, scrimped and saved, so we could enjoy greater prosperity. For the past 35 years, however, we have rewarded their long, hard efforts with an inadequate long-term care system based primarily on institutionalization and welfare financing. Most would agree, we owed our "Greatest Generation" better treatment. Surely, no one believes the current system can meet future needs. Our challenge today is to find and finance a better way of providing long-term care before the clock runs out on us baby boomers leaving an even bigger problem for the next generation. We must not fail our children as we let down our parents and grandparents. The clock is ticking. We're in a race, a race for survival, the LTC Triathlon.<sup>1</sup>

Despite the most benign economic conditions in United States history, America's long-term care service delivery and financing system is a tragic mess. Seven major nursing facility chains have declared Chapter 11 bankruptcy. Consequently, between 10 and 20 percent of all nursing home beds in the country are in bankrupt facilities today. Hundreds of home health agencies have gone under financially. Many new assisted living facilities are filling far more slowly than anticipated. Long-term care stock prices are down precipitously. New capitalization by debt or equity is almost non-existent for publicly held companies. Caregivers are in desperately short supply, whether they are low-wage nurses' aides in long-term care facilities or unpaid friends and family in private homes. Formal long-term care services are too expensive for most Americans to afford, but Medicare and Medicaid pay too little to assure quality home- or nursing home care. Litigation against nursing homes and assisted living facilities for providing allegedly poor care is on the rise and is driving liability insurance premiums through the roof. Only seven percent of seniors and virtually none of the baby boomers own private insurance that could help them with the catastrophic cost of long-term care. America's gigantic and rapidly aging baby-boom generation guarantees that the challenge of long-term care will become greater and far more expensive with time. As of now, we are losing the long-term care race.

What is wrong and how can we fix it? That depends on whom you ask. The government blames providers. The providers blame government. Who's right? Probably both positions have some merit, but the government has the biggest bullhorn so its point of view often prevails in the popular and academic media. No one gives much attention or credence to the private sector components that struggle, against ever-increasing odds, to build, operate and maintain the long-term care service delivery system. The purpose of this study was to listen to a sample of the Financiers, Providers and Insurers<sup>2</sup> of long-term care, give their point of view a voice, and begin the search for a better way. We asked 119 telephone interviewees four open-ended questions to find out their opinion regarding what is wrong, who is at fault, what should be done, and how.

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<sup>1</sup> A triathlon is a three-stage event. In long-term care's case, the three stages are (1) capital financing so providers can go into business, (2) provision of quality services, and (3) payment for those services.

<sup>2</sup> Throughout this report, we capitalize the words (F)inanciers, (P)roviders, and (I)nsurers when referring to the study's interviewees and we leave them in lower case when they refer generally to members of the industry groups.

We tapped into a gusher of anger and frustration directed primarily at the public programs that finance most long-term care in the United States: Medicare and Medicaid. (To help the reader find what our respondents had to say, most of the direct quotes in the report are highlighted.) For example: "**Medicaid does not cover costs**" and "**There is no question the nursing home sector was killed by Medicare cuts.**" The government demands "**Ritz-Carlton care for Motel 6 rates**" and simultaneously enforces an "**unprecedented regulatory Jihad.**" Although assisted living providers depend far less on government than do nursing homes and home health agencies, they too are tempted by and frightened of public financing. What should be done? According to our respondents, government financing is necessary but not sufficient. It must go only to the needy with private funding and insurance for all others. Most respondents agreed that (1) excessive government involvement caused many of our long-term care problems, (2) increased public financing is not the permanent solution, (3) past public financing impeded the growth of private financing alternatives, and (4) long-term care insurance is the most promising answer for the future. Such was the thrust of their analysis and recommendations.

If more private financing is the key to a solution, however, why haven't private financing and insurance played a larger role already and what should be done to effectuate such a result? We heard many opinions, but little agreement. The Financiers, who provide capital for the industry, have depended traditionally on Medicare and Medicaid to cover their cash flow requirements. They know little about private financing sources such as long-term care insurance. The Providers, who offer services directly to the public, either relied heavily on public financing in the past, had little or negative experience with private insurance, or both. The Insurers, who try to protect people against a risk about which most Americans are in denial, do not understand the Providers' problems or trust their intentions. Each of these groups has different challenges, different stakeholders, and different priorities. Each group, by its own report, lacks a long-term vision for its business. Each pursues its own private interests and public policy objectives independently, and so far, less effectively than all would prefer.

Nevertheless, all three groups are in agreement that a better understanding of each other's businesses could advance their own, their clients', their customers', and America's interests. They share a common purpose to pursue long-term care policy that is less dependent on government and more reliant on private financing. A near consensus prevails among the Financiers, Providers and Insurers interviewed for this study that, toward the goal of better coordination and cooperation, more industry-cross-cutting conferences, publications and speeches are highly desirable. The problem is where to start and how to begin. Most respondents stated that making such a beginning would be a difficult and thankless task. Nevertheless, the Center for Long-Term Care Financing would like to try. We will distribute this report widely in order to encourage mutual understanding of the challenge. We hope to convene an "LTC Summit" conference in 2001 to facilitate a conversation between long-term care financiers, providers and insurers. We will speak and publish widely on the importance of communication and cooperation between the primary private sector stakeholders in long-term care. And we will encourage and assist the major long-term care trade associations<sup>3</sup> to unite in the identification and pursuit of mutually beneficial public policy initiatives.

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<sup>3</sup> These include The National Investment Center, The American Health Care Association, The American Association of Homes and Services for the Aging, The American Association for Home Care, The National Association for Home Care, The Health Insurance Association of America, and the American Council of Life Insurers, and others.

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## **Preface**

This report is the third annual public policy paper of the Center for Long-Term Care Financing in Bellevue, Washington. Stephen Moses and David Rosenfeld established the Center for Long-Term Care Financing in April 1998. The Center is a duly constituted 501(c)(3) charitable, non-profit organization. Our mission is to promote universal access to top-quality long-term care by encouraging private financing and discouraging welfare financing of long-term care for most Americans. The Center advocates public policy that targets scarce public resources to the neediest, while encouraging people who are young, healthy and affluent enough, to take responsibility for themselves. We believe private insurance and investment can assure quality long-term care for prosperous seniors and help to preserve the Medicaid long-term care program for the truly needy.

Toward these ends, the Center offers a range of services and products to public and private supporters and clients. Our professional activities include consulting, publishing, training and public speaking. The Center for Long-Term Care Financing also publishes an on-line newsletter called *LTC Bullets*, which covers the latest information and trends in long-term care financing. The "Bullets" are available for the asking, free of charge. See Appendix D of this report for several examples of past issues of *LTC Bullets*.

The two principals in the Center for Long-Term Care Financing have many years of experience between them in the fields of long-term care policy, public welfare, aging, law and social work. Stephen Moses, the primary author of this report, was formerly Director of Research for LTC, Incorporated and a senior analyst for the Health Care Financing Administration and the Office of Inspector General of the U.S. Department of Health and Human Resources. He is nationally recognized as an expert and innovator in the field of long-term care. David Rosenfeld is an attorney and Master of Social Work with a growing reputation as an author and speaker on long-term care issues. He specializes in ethical questions affecting elder law. Mr. Rosenfeld conducted some of the interviews for this project and participated in editing the final report. Biographical profiles of Mr. Moses and Mr. Rosenfeld are provided at the end of this report.

In the past year, three new staff members have joined the Center. They include Sarah Allen, Administrative Coordinator; Amy Marohn, Director of Development and Marketing; and Talia Clever, Research Coordinator. Ms. Clever conducted some of the interviews for this project and contributed to the preparation of the report.

For more information about the Center for Long-Term Care Financing, including archives of *LTC Bullets*, an annotated bibliography of our research and publications with instructions on how to order them, and information about our Speakers Bureau, please consult the Center's web site at [www.centerltc.org](http://www.centerltc.org).

Finally, we want to express our sincere appreciation to all 119 of our study respondents who gave their time generously and their opinions frankly to make this report possible. We owe a special debt of gratitude to Barbara Stucki, Claude Thau, David Guttchen, Winthrop Cashdollar

and Dan Mosca for their extremely helpful comments and suggestions regarding a draft of the report. Each of these individuals was also a study respondent and is identified by title and professional affiliation in "Appendix B: List of Study Respondents."



## Introduction

America has a rendezvous with demographic destiny. Our 77-million-strong baby-boom generation moves gradually, but relentlessly toward senescence. Just as the boomers critically impacted schools, culture, economics and politics in their unprecedented rampage through the last half of the twentieth century, they will lay siege to America's social safety net in the first half of the twenty-first century.

Today, we are passing through a wonderfully benign demographic period. A huge cohort of baby-boom workers swells income tax receipts and pays 60 percent of all payroll taxes, while a relatively small generation retires. In ten years, however, they will start taking money out of Social Security and Medicare instead of putting it in, while a much smaller generation struggles to support those programs. When the boomers sell their equities and big family homes to move into secure, fixed-income investments and smaller retirement housing, the stock and real estate markets will feel the pinch. Our economy may crash just as the age wave starts to crest.

In the meantime, America's narrow window of opportunity to prepare for the aging of the boomers is shrinking daily. Progress on retirement and health security reform remains elusive. Worst of all, long-term care for the elderly—the most challenging of our social problems—is already in terrible trouble even in these best of times.

Long-term care service delivery and financing in the United States are dreadfully dysfunctional. Seven major nursing home chains<sup>4</sup> have recently declared Chapter 11 bankruptcy.<sup>5</sup> One or more of these companies may slip into Chapter 7 bankruptcy and disappear from the marketplace altogether. New assisted living facilities are filling too slowly. America's home and community-based services infrastructure is under-developed and starved for financing.<sup>6</sup> Capitalization of long-term care facilities, by debt or equity, is almost completely stymied.<sup>7</sup> Long-term care stock prices are under water.<sup>8</sup> The supply of both free and paid

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<sup>4</sup> "The last six months have been one of the most challenging periods ever for the senior housing industry. The staggering impact of complex legislation including the Prospective Payment System (PPS), plummeting stock values, a surge of development, increasing litigation and a dwindling labor pool have combined to drive seven skilled nursing chains and one major assisted living company into bankruptcy since late 1999." (\_\_\_\_\_, "Senior Housing Development Hamstrung by Market Turbulence," *Senior Housing Research Report*, National Edition [Marcus & Millichap], July 2000, p. 1)

<sup>5</sup> "Because 10% of nursing home beds have filed for Chapter 11 bankruptcy protection in recent months, many of the banks that have loaned money to long-term care companies are much more 'leery about making future deals,' Casson said." (Tracy A. Blankenheim, "LTC Mergers and Acquisitions Slowing," *McKnight's Long-Term Care News*, Vol. 21, No. 5, April 14, 2000, p. 21)

<sup>6</sup> "From my perspective - and I watch these issues quite closely - it's a good news/bad news story for [the long-term care] industry. As the population ages, and with the advances in healthcare in this country, there's going to be an enormous demand and an enormous increase in potential expenditures for [long-term care] services. The bad news is that no one has the foggiest notion of how we're going to pay for it. And it's not new. We've known about these demographics for 20 years, and the light at the end of the tunnel in this case is an oncoming train." - Former Senator Warren Rudman (R-NH) addressing the National Investment Center Plenary Luncheon in Washington, D.C. on September 15, 2000.

<sup>7</sup> "A December [1999] survey of lenders found that 43 percent identified nursing facilities as the 'least attractive' borrowers in the entire health care industry. And the health care industry as a whole was considered a bad loan risk by a whopping 85 percent of all lenders, according to the survey, which was conducted by Phoenix Management

caregivers is drying up. Most Americans cannot afford expensive formal long-term care services, but Medicaid and Medicare pay too little to assure access to quality care. Few seniors and almost no baby boomers own private long-term care insurance. Aging demographics guarantee an ominous future for long-term care, yet the issue is barely discernible on the national agenda. What is wrong and how can we fix it? That is the question every public policy maven in America should be asking and attempting to answer.

Unfortunately, objective analysis and practical proposals in the realm of long-term care policy are scarce. Political ideology and competing financial interests color the discussion. Some observers blame long-term care's malaise on the alleged greed, incompetence and callousness of private industry. Others emphasize the supposed stinginess, inefficiency, and indifference of government. Name calling and distrust prevail. Public policy continues to drift toward constriction of government financing and increased regulation and oversight, but without adequate strategies to attract private long-term care financing sources. This trend impels long-term care providers to complain that government financing is inadequate, regulation is too severe, and profitable private revenue is dwindling. Some analysts say we need more public financing and stronger enforcement of access and quality mandates. Others say we should target public financing to the needy and encourage private financing and insurance.

Who's right? Who can say for sure? The questions and answers seem hopelessly muddled. One reason for this confusion is that we rarely probe deeply into the views and motivations of the opposing sides in this ideological divide. For example, most long-term care study groups, commissions, and projects try to be all things to all people. Whether they originate in the private sector or the public sector, these well-intentioned initiatives attempt to bring everyone into the discussion all at once in order to achieve consensus. Such consensus as they achieve, however, is rarely more than the lowest common denominator of competing perspectives and interests. Instead of finding a new way that works, these studies tend only to solidify and expand the status quo. Thus is perpetuated a welfare-based long-term care system that serves well neither the poor nor the affluent and pits the private and public sectors in bitter conflict to no one's better interest.

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Services, Philadelphia. 'No single industry has ever registered such a low level of confidence since the survey's inception in 1995,' said the report." [p. 26] (Kathleen Vickery, "Surviving PPS," *Provider*, February 2000, pps. 25-38)

The investment picture for long-term care has improved somewhat lately. Since the research for this study was completed, the National Investment Center's (NIC's) *2000 Lender Survey Results* report was published. According to NIC executive director Robert G. Kramer: "This survey shows the industry's financial condition isn't quite as dismal as some might think, but lenders clearly are shifting their preferences from more care-intensive projects such as skilled nursing and assisted living to projects with fewer support services such as seniors apartments. While it remains to be seen whether the financing numbers will ultimately be achieved, it shows there is considerable lending activity, and that the loan window to the industry is far from being closed completely." (NIC press release, September 13, 2000)

<sup>8</sup> "If long term care stocks were reeling in 1998, they were flat on their backs in 1999... In fact...senior care stocks declined by more than 50 percent in 1999; not one posted a positive return... The nursing home industry has been particularly hard hit: four of the chains—Vencor, Sun, Mariner Post-Acute Network and Integrated Health Services—saw their collective market capitalization fall from \$5.3 billion to under \$50 million in just two years...[p. 30] 'The demographics argument works only if you think filling up buildings with Medicaid patients 'til they die is the road to profitability.' [p. 32, according to Advest analyst Robert Mains] (Sam Adler, "Woe Street," *Contemporary Long-Term Care*, April 2000, pps. 30-32)

The Center for Long-Term Care Financing has done something entirely different in this study. We decided to lend an attentive ear to a side of the long-term care issue that rarely gets a full and fair public hearing. There are two major constituencies that will determine the future of long-term care in the United States: private industry and the public sector. Years of personal and professional experience have convinced us that both groups deserve some measure of criticism and praise. If the private sector succumbs sometimes to greed and venality, it often produces stunning social benefits from competition among dedicated, hard-working, self-interested individuals. If government succumbs sometimes to inefficiency and waste, it often supplies idealistic, well-intentioned people committed to improving long-term care for all Americans. Both the public and private sectors claim to have constituents' and consumers' best interests at heart. Government, however, has been the locus of attention in long-term care since the origins of Medicaid and Medicare in 1965. We chose, therefore, to focus on the side that has been most criticized and least heeded in the on-going public policy debate: the long-term care business or profession.

The private long-term care profession is comprised of three main groups. **Financiers**—including lenders and investors—supply the debt and equity capital to build and operate long-term care facilities. **Providers**—including home health agencies, assisted living facilities, and nursing homes—offer long-term care services directly to the public. **Insurers**—including agents, brokers, and carriers—help consumers plan, save, insure, and pay privately for expensive long-term care services in order to avoid dependency on their families or government.

Each of these groups, but especially the providers, has borne the brunt of severe public criticism. The General Accounting Office and the Health and Human Services Inspector General have lambasted providers for alleged fraud, abuse and waste. Opinion surveys show that many older people would rather die than move permanently into a nursing home. Critics say assisted living is fine for the well-to-do, but fails to provide affordable care for those of lesser means. People complain they want long-term care in their homes and communities, but that such care is either unavailable entirely or out of reach financially. Everyone blames the private sector for failing to provide the quantity, quality and variety of long-term care services that Americans need and in the manner they prefer.

Is this criticism accurate? Is it fair? Is there a credible counter-argument? Could the underlying cause of these problems actually reside as much with the source as with the target of the censures? If they pulled together, could the private sector components of long-term care muster a compelling public policy proposal that would solve these problems **and** enhance their business interests? How can we possibly know? They don't talk to each other.

Unfortunately, the three big private sector powers in long-term care rarely communicate, much less cooperate, to identify and promulgate a common perspective on long-term care's challenges and problems. Their conflicting interests drive them apart: The financiers seek profitable investments; they take their money to more lucrative alternatives when long-term care markets fail to perform. The providers seek to fill their facilities' beds or their home care service calendars; they don't care who pays, but mainly they pursue public financing out of habit and simplicity. The insurers seek to keep their claims payments within actuarial expectations; they

fear the selfsame moral hazard and induced demand that would directly benefit providers and financiers.

Despite these centrifugal forces, however, long-term care financiers, providers and insurers do share a common public policy interest. They all stand to benefit if more Americans are able to pay privately at the full market rate for their long-term care and if fewer Americans become dependent on public financing programs like Medicaid and Medicare, which are notoriously low or unreliable payers today. Nevertheless, their differences have trumped their common interests so far. They have not joined forces in any significant way to identify or pursue their mutual benefit. Why is this true? To answer that question, we first needed answers to several other questions: how do these private sector stakeholders account for the country's problems of long-term care service delivery and financing? What do they know about each other's businesses? How do they perceive their separate and mutual interests? What kinds of misunderstanding or distrust pull them apart? Are their basic interests fundamentally and primarily in conflict or is there really an underlying basis for agreement? Could they benefit from more communication? How might cooperation among them occur? These are the questions this project attempted to answer.

## **The LTC Triathlon Survey**

We call this project The LTC Triathlon.<sup>9</sup> The metaphor derives from the fact that America is in a race for survival to find a long-term care service delivery and financing system that actually works before the baby boomers need one. Just as triathletes must compete in three sports,<sup>10</sup> the long-term care profession requires three integrated components: capital, services, and financing. No amount of wishful thinking, political mandates, or government enforcement will provide those components if no one can make an honest living and a decent profit supplying them. Thus, it is critical to know what the people who supply the capital, services and financing for long-term care think about the system in which they labor.

We set out in the Spring of 2000 to speak by telephone with at least 100 people engaged in the business of long-term care. We wanted to contact key industry leaders, but also some representatives of the rank and file. Starting with a few well-known Financiers, Providers and Insurers, we asked all interviewees to recommend other people whom they knew from personal experience to be especially perceptive and thoughtful on the subject of long-term care policy. In this manner, we found many insightful experts and we learned a lot about the professional network that does, or in many cases does not, tie these key industry players together. Although we did not attempt to interview equal numbers of respondents from all three groups, we did endeavor to assure broad representation of the views of each group. We emphasized the providers and insurers particularly, however, because their financial success or failure determines whether and to what extent the financiers invest in long-term care.

We succeeded in interviewing 22 Financiers (including some Wall Street analysts of long-term care), 47 Providers (including representatives of the home care, assisted living, and nursing home sectors of the profession), and 50 Insurers (including agents, brokers, and carrier executives) for a total of 119 respondents. These people are listed with their titles and business affiliations in Appendix B. Appendix C contains a tabular exposition and explanation of our subjective interpretation of the respondents' comments in terms of their knowledge or opinion on several different scales. To encourage openness and frankness, we agreed not to identify the sources of specific comments by name, but rather by type of respondent only. In some cases, it will be possible for the reader to identify certain respondents whose title or personal prominence single them out. For this reason, we provided copies of the draft report to every respondent and invited each to request deletion of identifiable quotes. None objected, however, so the quotes and citations remain unchanged from the draft. The questions we asked and a summary and analysis of the answers follow. One of the most important objectives of this study was to determine who knows what about each other's sector of the long-term care profession. Therefore, we will begin our analysis of the answers to each of the survey questions by characterizing the replies of the three groups of respondents.

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<sup>9</sup> Definition of "triathlon": "An athletic or sporting contest in which competitors engage in three different events; *spec.* a race comprising three events performed consecutively, usu. swimming, cycling, and long-distance running." (*New Shorter Oxford English Dictionary on CD-ROM*, January 1997, Version 1.0.4, Oxford University Press, Oxford)

<sup>10</sup> Swimming, bicycling and running.

**Question 1: Why do you think the long-term care system is having so much trouble these days? For example, nursing home bankruptcies, assisted living facilities slow to fill, low stock prices, debt and equity markets dried up?**

Financiers gave the most penetrating and comprehensive answers to Question #1. They provided sharp-penciled responses, explaining the problems with long-term care in terms of risk vs. rewards, profitability, investments, and Wall Street. The Providers were more philosophical. They said the long-term care profession lacks vision, pursues no coherent policy, and is too dependent on government, which has unfortunately become its main client instead of the patient. The Insurers' answers paled substantively in comparison to the Financiers' and Providers.' As a group, they covered most of the key points, but their individual answers were usually far more limited and simplistic. Few of the Insurers had a grasp of the issues comparable to most of the Financiers and Providers. Table 1: "Level of Knowledge and Sophistication on the Long-Term Care System," bears out these impressions. Seventy-three percent of the Financiers scored above the midpoint (4 or 5) on knowledge and sophistication as compared to 61 percent of the Providers and only eight percent of the Insurers. Fully 62 percent of the Insurers scored below the midpoint (1 or 2). Clearly, if Insurers hope to enlist Providers and Financiers to promote long-term care insurance and identify sales prospects, they need to have a better understanding of the difficulties and challenges the service delivery system faces.

Table 1: Level of Knowledge and Sophistication on the Long-Term Care System

	<div style="display: flex; align-items: center; justify-content: space-between;"> <span>Low</span> <span>←</span> <span>→</span> <span>High</span> </div>											
	N/A		1		2		3		4		5	
Financiers (22)	0	0%	0	0%	3	14%	3	14%	5	23%	11	50%
Providers (47)	0	0%	0	0%	14	30%	4	9%	18	38%	11	23%
Insurers (50)	1	2%	10	20%	21	42%	14	28%	3	6%	1	2%
Total (119)	1	1%	10	8%	38	32%	21	18%	26	22%	23	19%

The most knowledgeable respondents to Question #1 invariably observed that no single answer could explain the long-term care service delivery system's problems. They said nursing homes, assisted living, and home health had to be treated separately, so we will follow that break-out below. Nevertheless, respondents did identify two problems that affect every sector of the business: staffing and litigation. Finding nurse's aides to provide hands-on care to the elderly is extremely difficult in a booming economy that offers many higher-paying, more attractive employment options. **"We can't find the labor force; we no longer have the skilled staff to provide front-line care,"** according to the Chief Financial Officer (CFO) of a large non-profit nursing home. In the words of the Chairman and CEO of a long-term care real estate investment trust (REIT): **"The pay is low given the death, disease, smells, and personal hygiene one has to work in."** The long-term care profession's financial inability to compete for high caliber staff clearly has quality-of-care consequences that often lead to complaints and litigation. The Senior Vice President of a large long-term care lender observed that government's massive quality of care crackdown has had some positive outcomes, but has also opened the door for increased litigation and insurance costs. **"Ambulance chasers ride the coattails of**

**government compliance issues,"** he says. The senior editor of a long-term care trade journal mentioned highway billboards in Florida posted by lawyers trolling for clients: **"Is your Mom getting proper care? Call us."** He says **"insurance rates facilities have to pay have gone through the roof. Some facilities are dropping their coverage and becoming even more vulnerable."** The President of a small nursing home chain (which does not accept Medicaid) observed that some nursing homes declare bankruptcy not just because of financial problems but also for protection from liability suits absent their ability to afford insurance.<sup>11</sup> Although liability and insurance problems impact nursing homes most severely,<sup>12</sup> they are also becoming more and more serious challenges for assisted living facilities and home health agencies.

## **Nursing Homes**

Why are nursing homes, also known as skilled nursing facilities (SNFs), having so much trouble these days? Before we turn to the survey responses, a quick historical review may be helpful. In 1965, Medicaid and Medicare started paying nursing home benefits for eligible recipients and beneficiaries. Medicaid has always been the biggest single payer of nursing home costs. This fact led to many state and federal initiatives over the years to limit expenditures while simultaneously maintaining quality of care, potentially conflicting objectives. Medicaid has always had a reputation for extremely low reimbursement rates throughout most of the country. Medicare was originally a very minor nursing home payer, but took on a somewhat bigger role in the 1980s. When its new acute care prospective payment system pushed seniors out of hospitals "quicker and sicker," Medicare began to rely on SNFs more heavily for sub-acute care that was less expensive than hospitals could provide. Medicare's contribution to nursing home costs continued to grow rapidly after reimbursement standards for nursing home and home health care were loosened in the late 1980s. In the Balanced Budget Act of 1997 (BBA '97), Congress and President Clinton imposed a prospective payment system (PPS) on Medicare nursing homes which caused reductions in nursing home and home health reimbursements far more severe than anticipated or intended. A small portion of these cuts were restored recently by the Balanced Budget Refinement Act of 1999 (BBRA '99), but most of the

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<sup>11</sup> Although four-fifths of Florida's nursing homes are in business to make a profit, and tax dollars pay for 90 percent of their charges, 23 percent of the beds are now managed by companies gone bankrupt. In 11 other states, the percentage is even higher. "But Florida, which allows residents to sue for violation of their patient rights under state law -- and allows attorneys to collect fees separate from the damages -- leads in another national trend, the soaring rate of lawsuits against nursing homes. It began 11 years ago, when a Tampa attorney, Jim Wilkes, filed his first suit in behalf of a resident. He won. He has since expanded to seven other states, helped persuade Arkansas to pass a similar law, put up billboards on highways to solicit cases, and says he currently has 800 to 1,000 lawsuits in process, seeking a total of about \$1 billion.... He is out, Mr. Wilkes says, to destroy the industry. 'There are no good nursing homes,' he says." (Dudley Clendinen, "The Crisis is Providing Care for the Elderly Ill," *The New York Times on the Web*, September 2, 2000, editorial)

<sup>12</sup> "Beset with Medicare and Medicaid funding shortfalls, intensifying regulatory pressures, rising prescription costs, and high staff turnover rates, skilled nursing facilities are facing yet another challenge: skyrocketing liability insurance premiums that in some cases are forcing providers to go without coverage... This is an especially frightening development in Texas, where at least 25 percent of nursing facilities have filed for bankruptcy and there are fears that [liability insurance] rate increases will push more over the edge... [p. 40] This crisis, observers say, is the culmination of a confluence of factors that have been compromising the industry for years and helped create a fertile ground for liability claims. Inadequate Medicare and Medicaid reimbursement; complicated, broad, and subjective government regulatory schemes; an increasingly frail resident population; inadequate nurse-to-resident ratios; overbroad resident rights statutes; and unresponsive state legislators have all contributed to the current crisis." [p. 41] (Greg Weiss, "Through the Roof," *Contemporary Long-Term Care*, May 2000, pps. 40-42)

reductions still remain in effect. In the meantime, Medicaid nursing home reimbursement has also come under pressure. The repeal, by the Health Insurance and Portability and Accountability Act of 1996 (HIPAA '96), of the Boren Amendment, which previously required at least minimally adequate reimbursement levels, empowered state Medicaid agencies to control nursing home reimbursements much more easily. **"With the repeal of Boren, state Medicaid programs can ratchet down rates to find money for tax cuts or spending in other areas,"** according to the Associate Director of a national long-term care trade association.

How did the survey respondents account for the nursing homes' current travails? Their most frequent and intense reply was that nursing homes receive inadequate reimbursement to meet legislatively mandated staffing and expense levels. Because the vast majority of nursing home residents rely on Medicaid and/or Medicare to pay for their care, government financing is perceived to be the cause of this problem. According to the editor of a highly regarded long-term care investment newsletter, **"Medicaid does not cover costs" and "Medicare changed the rules of the game" (by cutting reimbursements severely in BBA '97) "so that nursing home revenues took a nose dive."** Historically, nursing homes relied on Medicaid to offset fixed overhead expenses. They looked to more lucrative Medicare and private-pay patients to provide a profit. Thus, Medicare cuts were the straw that broke the camel's back, causing a downturn in margins and driving many providers, especially large urban chains headquartered on both coasts, into insolvency and bankruptcy. (Several respondents emphasized that some small and mid-sized, privately held nursing home companies did not fall into these traps and are doing fine or even better than ever.) According to a Principal in a New York private equity investment firm, **"There is no question the nursing home sector was killed by Medicare cuts. This is a very small-margin business, maybe 2, 3, or 4 percent. If anything goes wrong, nursing homes are in big trouble. Rate pressure and wage pressure on a very leveraged financial base were devastating. It was a profitable business, but Medicare took that all away."** **"Reliance on Medicare was the nursing homes' problem,"** confirmed a leading Wall Street analyst.

Respondents also observed frequently that, having cut reimbursements to a point where quality of care was negatively affected, the government laid on a heavy regulatory burden. Instead of a "proactive" effort to mitigate the cuts and encourage quality, the political powers-that-be implemented a "police" approach. They cracked down with a massive compliance initiative that destroyed staff morale and became an open invitation for tort lawyers to litigate. The Chairman and CEO of a large, bankrupt, multi-facility company said: **"The government is not willing to own up to the fact that it has a budget policy only and no health policy. It has taken out the regulatory club to find bad providers instead of dealing with the true issue of inadequate payment. Inadequate payment, inconsistent payment, and government deceit are the three key issues. This holds true for Medicare and Medicaid."** The Director of an insurance advocacy program agreed: **"Government repealed Boren and cut reimbursement, engaged in a witch hunt, and then wants to blame everything on the industry."** Quality control **"is driven by the state health department with little consideration given to funding, which the welfare agency runs,"** according to the Chief Financial Officer of a health care consulting firm. Many respondents used terms like "hostility," "harassment," and "penalties" to describe the approach of politicians and bureaucrats to the nursing homes' problems, which the



respondents believe the public officials themselves exacerbated. **"It's been an unprecedented regulatory jihad,"** said the Executive Director of a state nursing home association.

Nevertheless, Providers—and especially Financiers—do not place all the blame for the nursing home crisis on the government. Many of the respondents acknowledged that companies often prepared poorly for Medicare's new prospective payment system. For example, some of the large multi-facility chains leveraged themselves financially to the hilt. They purchased ancillary services companies in order to take full advantage of lucrative Medicare payments for various therapies and rehabilitation services. One reason their stock prices collapsed was that they promised Wall Street far more than they were able to deliver after Congress and the Administration cut Medicare reimbursements. Because they were leveraged as a multiple of anticipated cash flow and they had little collateral that might be liquidated when cash flow declined, they could not meet their debt service and many of them went under. Several respondents attributed these difficulties to greed and poor management. A Vice President for Health Care at a major commercial mortgage company concluded: **"The public companies that chased Medicare deserve to be bankrupt. The system always wrings out excess."** The Chairman and CEO of a health care REIT and an operating company observed: **"The cupidity and bad people in this industry are a problem. People were not willing to make a nickel on a dollar caring for the elderly. They wanted quarters."** On the other hand, as a former U.S. Senator currently active in long-term care policy pointed out, the lure of easy money to be made by accommodating business practices to maximize rich public reimbursement is an open invitation to overreach. **"It looks profitable and then it is not. People make long-term business decisions and then get caught with their buildings up and their pants down."**

Several respondents attributed the underlying problem for the nursing homes to a virtual take-over of the business by government. **"The industry is reaping the inevitable whirlwind of a government funded and regulated business,"** according to the President of a rare private-pay-only chain of facilities. **"Companies dependent on the government for upwards of 70 percent of their revenue cannot survive major cuts either all at once or over time. These companies believed they were private, but they were really only creatures of federal transfer payments. As they say, 'Once you're in the mob, you're in the mob.'"** A nationally prominent nursing home Vice President concluded:

**We, by default, have allowed the Medicaid system to run our lives. Our industry members believe the Medicaid system is good and only needs tweaking and then everything will be all right. We have allowed Medicaid to tell us what services are to be provided, what they should cost, etc. We are driven by Medicaid. There is more regulation here than anywhere except the nuclear industry. Our profession does not realize what the marketplace is. We have tried to control supply and the demand is going elsewhere, *i.e.* to assisted living.**

The President and CEO of another long-term care company said **"The fundamental cancer in the system is philosophical, not pragmatic. The system fosters dependence, not independence. Providers chase reimbursement instead of customers."**<sup>13</sup>

The bottom line on the nursing home business is very bad. According to the Vice President of a large health care REIT, nursing homes **"lost business at the top and the bottom"** as Medicare cut ancillary services to high-acuity (sicker) patients and assisted living facilities **"siphoned off"** the more profitable, light-care, private-pay residents. This patient attrition proceeded in a context of on-going price pressure from Medicaid. The managing editor of an online trade journal summarized:

**Nursing homes ... were built by Medicare; paid for by Medicaid. People ended up there because that is what Medicaid paid for. Private payers ended up there because they had nowhere else to go. Nursing homes only get people who need to go there now. They can't cost shift to Medicare anymore because of PPS. The good news is nursing homes are not housing the wrong people as they used to do. The bad news is they are not getting enough money [to survive]. I'm afraid nursing homes are just going to get abandoned. Nursing homes will be the places where people go who have nowhere else to go and no one else to pay but government.**

The President of a major long-term care insurance company summed up the situation this way:

**My impression is that the [nursing home] industry has been squeezed to the point where the government is not paying its fair share of the cost. As a result, the nursing homes are almost in a death spiral. They have to cut the level of care if they do not get adequate funding from [the government]. As they cut care, however, nursing homes become less desirable to consumers. [Long-term care] is a big bill that no one wants to pay. The people providing the care are the ones stuck in the middle.**

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<sup>13</sup> Some leaders in the public sector also bemoan government "micro-management" of the long-term care industry. The following remarks were made by Senator John Breaux (D, LA) speaking at the Senate Special Aging (Grassley) Committee Hearing on Nursing Home Bankruptcies, September 5, 2000 as transcribed from a C-SPAN2 broadcast: **"All of this just drives me crazy. This is the only thing we do as government where we have to micro-manage down to how many dollars an industry that provides health care to 40 million seniors is going to be reimbursed. Is it going to be \$2 billion, or \$2.1 billion, or \$2.12 billion and we sit in these rooms and behind these committee hearings and decide whether we are going to give a .75 increase or a .78 percent increase to nursing homes, home health care, doctors and hospitals and we wonder why we've got a problem with this system because we are micro-managing it down to the nth degree and we are incapable of continuing to do that in this fashion. This makes no sense.... There is no question why we are in a problem like this trying to come up with formulas and market baskets and prospective payments.... Is it any wonder we have 11 percent of the nursing homes in the country in bankruptcy and in some states much higher than that because those of us in Washington are trying to figure out whether they're going to get paid x amount for therapy and x amount for ancillary services, and it's just not working. This is great evidence of the fact that it is not working. We can't continue to do this. I mean, this service is too important to the nation's seniors and to the health care in general for this country to keep managing it on a 1965 model and that is what we're doing and that's why we've got the problem."**

## Assisted Living Facilities

The challenges facing the assisted living facility (ALF) marketplace today are much less complicated and serious than the potentially fatal problems bedeviling nursing homes. ALFs are a popular, mostly private-pay, long-term care alternative that has grown rapidly over the past decade. As nursing homes became more undesirable in the public's mind, people with lower acuity care needs were increasingly willing to spend their own money to stay out of them. Compared to nursing homes, ALFs are more like hotels where one can call room service for help taking a bath or "leave a call" at the desk to be reminded to take a medication. They are less medicalized and more oriented to socializing and normal living. Unfortunately, the long-term care industry's reach for this new market exceeded its grasp. Expectations were raised too high, growth occurred too fast, and results disappointed investors.<sup>14</sup> So the ALF business is currently in a consolidation phase focused less on rapid growth and more on filling facilities and solidifying cash flow.<sup>15</sup>

Here's how the survey respondents stated the situation: the assisted living industry **"overbuilt."** There was a **"land rush"** to build up inventory too fast. Promoters misrepresented assisted living as a **"growth"** industry. Their predictions of how fast new facilities would fill were exceedingly optimistic. They overestimated lengths of stay and underestimated turnover. Too few of the developers were experienced in the field and high-quality workers were hard to find because of the thriving economy. Their site selection was often inadequate. They borrowed too much and became over-leveraged. Capital was **"thrown at them"** in the 1990s because of their supremely optimistic projections based primarily on demographic hype. When the industry could not meet its overly hopeful promises to Wall Street, it lost credibility and fell out of favor. According to a Director at a large Wall Street firm: **"They over-promised and under-delivered. You should do just the opposite in the capital**

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<sup>14</sup> "There is a shake-up underway in the assisted living industry. Several high-profile public companies have experienced financial difficulties and it is probable that in the next two or three years, more than a few of the top 30 companies will be out of business." (Joseph T. Howell, "Surviving the Shake-Up," *Contemporary Long-Term Care*, June 2000, p. 29)

<sup>15</sup> The following quote from an article entitled "Too Much Too Soon Halts Assisted-Living Boom," by Terry Pristin in the business section of the May 28, 2000 issue of the *New York Times* confirms many of the points made by our respondents: "Fueled by favorable demographic trends, strong consumer demand and a robust economy, the assisted-living industry was supposed to be mounting record profits this year while expanding rapidly and reaching new stock market peaks. That, at least, is what analysts were predicting three years ago.... It has not exactly worked out that way.... New construction has all but stopped.... What went wrong? The answer is a binge of overinvestment and overbuilding, with too many companies trying to seize a trend.... In contrast to nursing homes, assisted-living homes face few regulatory barriers. New residences often went up with little market research.... But many companies did not anticipate how long it would take to fill their buildings. The costs are beyond many people's means. Monthly fees start at \$3,000 in lower-cost regions and climb sharply, depending in the service needed—with medical care usually extra. Also, many elderly people are reluctant to give up their independence.... Some companies failed to foresee that they would be serving an increasingly older and therefore more frail clientele (the average age is now 84), forcing them to add staff, which cut into profits.... During the building boom, many markets became saturated, prompting several states to require certificates of need before a home could be built.... Confidence in the industry was also shaken when many of the companies chose to engage in so-called off-balance-sheet financing.... Not all of the industry's problems have been of its own making. Changes in Medicare reimbursement methods for nursing homes also affected the prices of assisted-living stocks, because many investors do not distinguish among forms of senior housing, analysts say. Last year, the stocks tumbled after an analyst reported -- incorrectly, as it turned out -- that the Government Accounting Office was about to recommend federal regulation of assisted living."

**markets. The capital markets are fickle, they expect results."** To add insult to injury, market analysts often smeared assisted living facilities with the same brush as nursing homes because they failed to understand the fundamental differences between the two markets. Consequently, the assisted living industry is focused now on winning back the trust and confidence of the capital markets.

Clearly, the days of growing fast and filling effortlessly are over for the assisted living facilities—especially for the publicly traded, for-profit companies on the coasts and in the urban areas—at least for the present. According to a Portfolio Manager at a capital management firm, **"The easy money is gone."** Therefore, the ALFs are looking beyond their traditional high-end, private-pay clientele base toward attracting the huge potential market of middle and lower-middle class seniors. Medicaid waivers or vouchers to help low-income people afford assisted living are gaining popularity with many in the industry. Several respondents observed, however, that going down-market in this manner may run the risk of increased regulation incidental to increased government financing. A newsletter editor said if they move toward Medicaid and vouchers, **"Five years from now [assisted living] will be facing some of same problems as SNFs, such as litigation, regulation, rising labor costs, and scarcity of labor."** A top Wall Street analyst commented on the voucher idea: **"If they do that, they will find the road to hell paved with their good intentions. They know the nursing home model does not work, why are they recreating it?"** The bottom line on assisted living is that the business is in far less trouble than the nursing homes, but faces many of the same vulnerabilities in the future.<sup>16</sup>

## Home Care

Problems facing the home care industry are more similar in kind and gravity to the nursing homes' difficulties than to the assisted living facilities'. Severe cutbacks in home care reimbursement by Medicare have driven hundreds of home health agencies into bankruptcy.<sup>17</sup> According to the President and CEO of a national home care trade association, **"The Balanced Budget Act of 1997 dramatically reduced prices companies are paid for providing home care. They took a 30 percent hit and many went belly up. Another 15 percent cut was recently postponed. Under Medicare, home care agencies cannot make a profit. At the same time, government decided to double the number of audits. Withholding Medicare checks became the solution. Government just didn't care."** Even exclusively private-pay home health companies are struggling because of the scarcity of affordable labor and competition with publicly financed institutional care options, such as Medicaid nursing homes. A hopeful sign for the home care industry, however, is that most aging Americans want to

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<sup>16</sup> "According to a recent report released by New York-based Moody's Investor Service, the assisted living industry has a significantly higher credit risk profile than traditional multi-family housing. Reasons for the higher risk, the report cited, include high resident turnover, uncertainty over future regulations and Medicaid funding, increased competition, complex pricing structures and lack of affordability... 'Current Medicaid disbursements are not keeping up with increasing costs and there is no reason to believe that that would change if Medicaid becomes a widely acceptable form of payment for assisted living,' Berry [Wendy Berry, senior vice president of Moody's and co-author of the report] said." (Tracy A. Blankenheim, "Investing in Assisted Living Can be Risky Business," *McKnight's Long-Term Care News*, Vol. 21, No. 8, June 19, 2000, pps. 21, 24)

<sup>17</sup> "On the homecare front, the National Association of Home Care claims that over 2,500 agencies have closed or left the Medicare program, and that long-term home care patients have been cut off from care." (George Sherman, "LTC Entitlement Dollars Contribute to Turbulence in Nursing-Home Industry," *LTC News & Comment*, January 2000, p. 12)

remain as long as possible in their homes. The public is becoming increasingly willing to pay for services that help them stay at home. Several survey respondents observed that long-term care may ultimately evolve into virtual nursing homes wherein patients living at home are connected electronically with most services that are now only readily available in formal institutions. This development may not bode well for SNFs or ALFs.

## Summary

Although a few survey respondents acknowledged that some of the problems facing long-term care have been self-inflicted by industry greed and mismanagement, the main thrust of opinion is that excessive government involvement, including sparse funding and stringent regulation, has been the most serious underlying cause of the dysfunction. Table 2: "Placement of Responsibility for Problems between Providers and Government" documents this point conclusively. Fully 70 percent of the respondents assigned primary responsibility to the government (scored 4 or 5), while only 11 percent assigned primary responsibility to providers (scored 1 or 2). Financiers were somewhat less likely to blame the government (64 percent) than Providers (75 percent) with Insurers falling in between (70 percent). According to the President of a financial consulting firm: **"We have a 'schism of disconnect.' We no longer have a good connection between the cost of long-term care and the responsibility to pay. People view long-term care as a government responsibility. The average senior merges long-term care in with retirement programs and doesn't distinguish between social insurance and welfare. This is at the root of most of the problems."** In a nutshell, the public wants government to provide long-term care, but the government has been unable to do so in a manner that permits the business of long-term care to prosper and survive. The direct consequence is the dysfunction we find in America's long-term care system today.<sup>18</sup>

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<sup>18</sup> What's ailing long-term care? In summary: "The contraction of capital markets.... Slower fill-up of some new assisted living facility developments. Earnings disappointments by publicly owned skilled nursing and assisted living companies. News that several of these publicly owned companies declared bankruptcy. Continuing labor issues, including only a small pool of already-trained workforce and rising costs of labor. Changes in Medicare reimbursements.... Providers are concerned from an earnings and operational standpoint...credit sources are more cautious and concerned about making the right decision when extending credit.... Increased regulatory pressures—particularly highly publicized government enforcement of Medicare fraud that creates skeptical and overly cautious investors. Declining market capitalization in the public equity markets that, in turn, causes the cost of capital to increase and slows the pace of developing new facilities and refurbishing existing buildings." (Joseph T. Resor, III, "Troubled Times Don't Necessarily Mean Gloom and Doom," *Nursing Homes Long-Term Care Management*, March 2000, p. 58)

Table 2: Placement of Responsibility for Problems Between Providers and Government

	N/A		Providers ←-----→ Government									
			1		2		3		4		5	
Financiers (22)	0	0%	2	9%	1	5%	5	23%	9	41%	5	23%
Providers (47)	0	0%	2	4%	2	4%	8	17%	16	34%	19	41%
Insurers (50)	2	4%	1	2%	5	10%	7	14%	22	44%	13	26%
Total (119)	2	2%	5	4%	8	7%	20	17%	47	39%	37	31%

**Question 2: What is your opinion of public financing sources for long-term care, e.g., Medicaid, Medicare or a possible new government-financing source?**

Given their responses to Question #1, the fact that all three groups of respondents have a very low opinion of the public financing sources for long-term care should come as no surprise. As Table 3: "Opinion of Public Financing Sources," indicates, 84 percent of the respondents scored government at the very low end of the opinion scale. Financiers were moderately less negative toward government (72 percent) whereas the Providers (85 percent) and especially the Insurers (88 percent) were highly antagonistic toward public financing.

Table 3: Opinion of Public Financing Sources

	Low		←-----→ High									
			1		2		3		4		5	
Financiers (22)	10	45%	6	27%	3	14%	2	9%	1	5%		
Providers (47)	22	47%	18	38%	7	15%	0	0%	0	0%		
Insurers (50)	22	44%	22	44%	6	12%	0	0%	0	0%		
Total (119)	54	45%	46	39%	16	13%	2	2%	1	1%		

When asked their opinion whether or not a new government financing source for long-term care might come along someday to ameliorate current problems, the Financiers (82 percent), and especially the Insurers (96 percent) were very skeptical, giving answers easily categorized as "slim to none" or "unlikely." This information is summarized in Table 4: "Likelihood of a New Government-Financing Source for Long-Term Care." Perhaps it was wishful thinking by a profession historically very dependent on public financing, but only the Providers (66 percent) were somewhat less doubtful—32 percent of them gave the possibility of a new program a solid "maybe."

Table 4: Likelihood of a New Government-Financing Source for Long-Term Care

	Slim to none 1		Unlikely 2		Maybe 3		Likely 4		Inevitable 5	
Financiers (22)	4	18%	14	64%	3	14%	1	5%	0	0%
Providers (47)	9	19%	22	47%	15	32%	1	2%	0	0%
Insurers (50)	20	40%	28	56%	2	4%	0	0%	0	0%
Total (119)	33	28%	64	54%	20	17%	2	2%	0	0%

The Providers expressed a strong sense that economic times are currently very good and that this fact masks the gravity of the problems associated with Medicaid and Medicare financing. If these programs are under-funding and over-regulating today, when tax rolls are up and welfare rolls are down, they ask, what will happen when the economy turns downward, tax receipts decline, and dependency on public assistance increases? Perhaps it's self-interest, but the Insurers were much more pessimistic than Providers about government financing of long-term care. The Insurers believe government has seen the handwriting on the wall and seeks to shift the burden of long-term care financing to the private sector through restrictions on Medicaid nursing home eligibility, tax incentives for private insurance and long-term care coverage for federal employees. Government financing is necessary but not sufficient, they say, so it must be targeted to the needy and supplemented by private funding in some form of **"partnership."** Financiers emphasized the perverse incentives in the public programs which reward severe cost reduction at the expense of quality care. Some of them even opined that the government is intentionally destroying the provider industry in order to squeeze out excesses and that it will resuscitate the survivors only at the last moment. Several respondents observed with remorseful irony that a prescription drug program is more popular with seniors and politicians today than a long-term care solution, even though long-term care is the much greater individual and national liability.

The respondents' comments on the adequacy of government financing for long-term care were especially colorful and evocative. The President of a national long-term care trade association called Medicaid and Medicare a **"Ponzi scheme"** that is **"not viable as we go from the current pyramid [many young supporting few old] to a stack [fewer young supporting many old]."** The CEO of a long-term care company complained that the government and the public **"expect Ritz-Carlton care for Motel 6 rates."** A nursing home trade association executive stated that **"Medicare and Medicaid are just rearranging the deck chairs on the Titanic."** The Executive Director of a research organization opined that government is **"moving [long-term care] toward becoming a regulated utility."** The President of a long-term care insurance company said **"There's not a snowball's chance in hell for a new long-term care entitlement."** Another insurance executive grouched **"Most of us don't think we'll get Social Security, much less a new long-term care program."**

In summary, according to the Senior Vice President of a major long-term care lender, **"The government needs to decide whether they want to have socialized medicine or private enterprise. They can't have it half way and that is what they've tried to do."**

A best-selling author and international consultant on the economics of aging pointed out the importance of keeping private capital in the long-term care market somehow:

**What drives the capital markets is risk and reward. Venture capitalists and investment bankers have many choices in front of them. They can invest in oil, shipping, biotech, information technology, whatever. The world of long-term care, with its government involvement and unpredictability, has relegated the entire long-term care segment of the economy to insignificance. It is untouchable and undesirable [to the moneyed interests]. When capital flows into an economic sector, it creates competition, [development] and improvement. When capital is not supplied adequately to a sector, businesses cannot hire the best people and they do not advance. Institutions looking to place capital have moved away from home care, assisted living and nursing home care. Those areas are not considered a good investment because of equity, stock and bond values.**

Several respondents drew the parallel between long-term care financing policy and the defined benefit vs. defined contribution issue in retirement planning. The United States has long sustained a failed, government-financed defined benefit program for long-term care, which is now, for all practical purposes, inadequate and insolvent. Perhaps the solution, they wondered, is a privately based, defined contribution system in which most people save or insure for many years in order to have a personal stake in a fund or insurance policy that will pay for their long-term care someday. If such a system relieved the financial burden on public programs, the government might be able to do a better job of providing access to quality care at the appropriate level to its primary clientele, the indigent.

**Question 3: How about private long-term care insurance? What do you think about that? Why has long-term care insurance been so slow to take off?**

Not surprisingly, Insurers (84 percent) had the highest opinion of private long-term care insurance (scored 4 or 5) among the three groups of respondents. As Table 5: "Opinion of Long-Term Care Insurance" indicates, however, Providers also expressed highly positive opinions (71 percent) and half the Financiers were very favorably disposed toward the private insurance product (50 percent.) The Financiers' somewhat lower evaluation of private long-term care insurance may be related to the fact that they were the least knowledgeable about the product. Only 23 percent of them scored 4 or 5 on insurance savvy, as Table 6: "Knowledge of



Table 5: Opinion of Long-Term Care Insurance (LTCI)

	N/A		Negative ←————→ Positive									
			1		2		3		4		5	
<i>Financiers (22)</i>	3	14%	0	0%	3	14%	5	23%	6	27%	5	23%
<i>Providers (47)</i>	0	0%	1	2%	5	11%	8	17%	21	45%	12	26%
<i>Insurers (50)</i>	1	2%	0	0%	2	4%	5	10%	33	66%	9	18%
Total (119)	4	3%	1	1%	10	8%	18	15%	60	50%	26	22%

Long-Term Care Insurance" indicates. On the other hand, Providers scored only marginally higher on savvy (26 percent) despite their far more favorable opinion of insurance. The one thing we can say for sure is that neither the Providers nor the Financiers know much about private long-term care insurance, as compared to the Insurers who scored a comparatively high 58 percent.

Table 6: Knowledge of Long-Term Care Insurance

	N/A		Uninformed ←————→ Savvy									
			1		2		3		4		5	
<i>Financiers (22)</i>	1	5%	4	18%	4	18%	8	36%	5	23%	0	0%
<i>Providers (47)</i>	1	2%	6	13%	15	32%	13	28%	10	22%	2	4%
<i>Insurers (50)</i>	1	2%	0	0%	6	12%	14	28%	22	44%	7	14%
Total (119)	3	3%	10	8%	25	21%	35	30%	37	31%	9	8%

This result parallels what we found earlier about the Insurers' lack of understanding regarding long-term care service delivery problems. It seems that each respondent group knows a lot about its own field, but very little about the complementary businesses of the other respondent groups. The only point on which they all agree, as shown in Table 7: "Responsibility for Slow Growth of Long-Term Care Insurance," is that the historically slow market penetration of private long-term care insurance is caused far more by public policy negative toward private insurance, and/or consumer ignorance or denial of the need, than by incompetence or a lack of effort on the part of the insurance industry. All three groups placed the preponderance of the responsibility for depressed insurance sales on public policy or consumers, scoring at the high end of the scale (4 or 5) between 60 percent (Providers) and 64 percent (Financiers) of the time.

Table 7: Responsibility for Slow Growth of Long-Term Care Insurance

	N/A		LTCI Industry ←————→ Public Policy/Consumers									
			1		2		3		4		5	
Financiers (22)	3	14%	0	0%	2	9%	3	14%	7	32%	7	32%
Providers (47)	2	4%	4	9%	3	6%	10	21%	12	26%	16	34%
Insurers (50)	1	2%	2	4%	8	16%	8	16%	18	36%	13	26%
Total (119)	6	5%	6	5%	13	11%	21	18%	37	31%	36	30%

Many respondents showered high praise on private long-term care insurance. Providers were especially positive. **"I love it. Great concept. Exactly the right vehicle because it creates a larger private pay pool,"** said the Chairman and CEO of a prominent assisted living chain. According to the former President of a national nursing home association, long-term care insurance is **"absolutely essential for the survival, not just of the provider industry but of the people who need our services. Access to quality care cannot be attained without it."** The former Executive Director of a national provider association said **"That is the best way to utilize the private sector resource. Long-term care is a catastrophic risk so insurance makes a lot of sense."**

Several Financiers not only praised long-term care insurance, they own it. The President of a consulting firm that conducts long-term care market studies effused **"I own it. It's a very good, attractive, and expanding product. I was surprised at how remarkably affordable it was. Sophisticated people are buying long-term care insurance because it helps with home health, assisted living or skilled nursing home [expenses]."** The Editor of an investment newsletter (Stephen Monroe, cited by permission) said **"My wife and I have individual long-term care policies. At our age, each policy costs less than a cup of coffee per day. It covers home health and protects us against stroke or accident."** We intentionally did not ask respondents explicitly whether they personally owned long-term care insurance because their insurance coverage was not the focus of this study. Nevertheless, 11 respondents (nine percent of the total), including six Financiers, four Providers, but only one Insurer, spontaneously volunteered the fact that they or their parents do indeed own the product. Interestingly, the one Insurer who mentioned he has coverage was formerly a broker and is currently a publisher specializing in long-term care. He has a long-term chronic illness and is currently in claim on his insurance policy. He said **"I'm a living, walking, breathing example of how long-term care insurance is successful... [It] is the single best, most efficient, and only guaranteed way to deal with a contingent liability of this magnitude."**

### Major Factors that Impede the Long-Term Care Insurance Market

Survey respondents' answers to the question of why long-term care insurance has been so slow to take off encompassed the positive evaluations described above, but they also included less complimentary, minority opinions expressed about the product. Ranking the key factors impeding market penetration (highlighted) by the approximate order of their frequency and intensity of expression, we get the following:

- Consumer **Denial** (including procrastination, "won't happen to me," "someone will take care of me," and the aversion to thinking about dementia and incontinence); it is hard to convince people of a new insurance need they have never before considered;
- The perception that the **Government** pays for long-term care without requiring asset spend-down, which is often correct with regard to Medicaid, thus anesthetizing the public to long-term care risk;
- **Misinformation** of all kinds, but especially regarding Medicare coverage (which is less than believed), Medicaid's negatives (worse than believed) and the perception that it is better to finance long-term care needs by investing in the equity markets (misguided); published research indicates that most of the reasons for failure to buy are based on misconceptions; much of the mistaken information on long-term care and insurance comes from ill-informed, so-called experts including many financial planners and media sources;
- Widespread consumer **Ignorance** indicates a strong need for **Education**; the products are **Complex**, and the subject (disability, morbidity, and death) is **Unpalatable** and **Awkward** to discuss between siblings and between adult children and their parents; the government is at fault for not disclosing the inadequacy of public programs; long-term care insurance companies are at fault for not doing a better job of marketing and consumer education; the gap between the perception and the reality of affordability is a particularly critical problem;
- The need for and lack of **Positive Incentives** in public policy for consumers to plan and insure for long-term care, especially genuine above-the-line tax deductions or tax credits at the federal and state levels;
- Some early policies were not good and gave the product a **Bad Reputation**; consumers are concerned about **Rate Stability**; some companies are exiting the market because of inadequate **Profitability** (they can make more money elsewhere); the products need a **Seal of Approval** from government (such as a successful federal employee long-term care insurance program<sup>19</sup> and a stronger public/private partnership program);
- The **Distribution** system for long-term care insurance is inadequate and inefficient, a bottleneck. There are too few competent agents and brokers, because they can make more money selling insurance products other than long-term care. Agent training is insufficient, a low priority to the carriers, who are remiss in this critical area.
- **Marketing** challenges and shortcomings afflict the business: the direct mail market is saturated causing low response rates; the industry focuses on too narrow a band of middle and upper-middle class people; they sell to people too old to afford the product, but neglect younger people who do not see the need; companies should focus more on user-friendly **Case Management**, how to stay out of **Nursing Homes**, and how to find **Quality Care**; they

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<sup>19</sup> A long-term care insurance program for U.S. government employees was signed into law in September 2000. The program will not be fully implemented for at least two years after which an evaluation of its impact will require still more time.

should focus less on asset protection against long-term institutional stays; the industry does too little to involve **Employers and Groups** in marketing the product.

- Long-term care insurance needs a national **Spokesperson** or "pitchman," (someone like Christopher Reeves, Michael J. Fox, Angela Lansbury, Nancy Reagan, or Clint Eastwood); something like the "Got Milk?," seat-belt or anti-smoking campaigns could raise the public's consciousness and understanding of the need for private coverage;
- Long-term care insurance is not seen as a good **Investment** by many people, especially younger prospects, because they get nothing back unless the insured event occurs; therefore, the industry needs more equity-building products, life insurance conversions, and non-forfeiture features;
- Competition for visibility on the public policy agenda with other issues that are more salient and attractive to seniors, such as **Prescription Drug** coverage.

We should note that a small but vocal minority took issue with our presumption that the long-term care insurance market has been growing very slowly. They observe that sales of this product have increased by 10 percent to 20 percent every year since its inception in the early 1970s. This rate of growth compares very favorably with other, more established, insurance products that historically expand their markets by only three to five percent per year. We would point out, however, that mature markets nearly always grow much slower than new markets. One of the Insurers we interviewed, a nationally prominent Actuary, made this telling remark:

**I'm disappointed. I made predictions in 1985, based on the need for protection and the funds available to [potential buyers], that annual growth in [long-term care insurance] sales would start at 100 percent per year and gradually decline to five or six percent by 2020. I thought we would have about as many people covered for long-term care then as we do now for Medicare supplemental insurance, around 75 to 80 percent. That has not happened.**

It is safe to say, at least, that virtually all of the respondents would like to see the long-term care insurance market grow more rapidly. Most of them agree that it will grow faster as more and more baby boomers go through wrenching long-term care experiences with their own parents. Nothing focuses the mind on this issue like a parent's frailty or chronic illness, the urgency of a hospital discharge, the sudden need for care services, or searching for affordable care.

The reasons given by respondents for slow market penetration tended to place the responsibility more on negative public policy and consumer ignorance or denial than on insurance agents, brokers or carriers. A Financier said **"I think as long as we have a lot of people who believe they have paid [taxes] and have rights to Medicaid and Medicare, they are not going to put money into LTC insurance. Why should I pay for insurance as well."** Likewise, the former President of a long-term care insurance company observed that **"People don't buy what they can get for free."** Another insurance executive averred: **"We don't hear stories about people going broke paying for LTC. We hear more stories about how people**

**get long-term care [from the government] without going broke."** According to the Executive Vice President of an investment banking house: **"Given [the promises of] Social Security, Medicare and Medicaid, especially the less educated honestly believe the government is going to take care of everything."** The Providers had similar opinions. **"LTC is a service no one wants, and when they have to have it, they want someone else to pay for it,"** said a trade association executive. **"Planning for college education is commonplace. Planning for long-term care is rare,"** indicated the Executive Director of another trade association.

Nevertheless, a minority of respondents spared no criticism of the long-term care insurance industry. The Executive Director of a research association said **"The policies are hard to understand. You don't know what you're getting. You don't get what you think you are getting."** The President of a nursing home chain offered the judgment that **"insurance companies have done a horrible job designing and marketing the product. It infuriates me."** A nurse, lawyer, and provider industry analyst opined: **"I don't think they are selling it to the right people. The people most vulnerable to needing services are the ones interested, but they are not the people insurers want to sell to. Premiums are outrageous for those people."** The President of a large non-profit nursing home expressed fundamental doubt: **"I'm not convinced that aging and chronic disease are insurable events."**

Although experts might attribute some of the negative comments described above to ignorance of the product and the market, even some Insurers themselves laid serious blame on the industry. A former broker, currently in claim himself said: **"The industry itself is responsible. It has an inefficient distribution system; commissions need to be leveled; they should voluntarily standardize benefits which are too complicated now; more training is needed because most brokers don't even understand the products; and they definitely need a national spokesperson."** An insurance executive agreed that **"insurance companies are remiss on agent training. Home offices think that the demographics are enough and training is unnecessary."** A former long-term care insurance company President suggested that: **"The industry needs to create cash value products which have an investment component. This would create a huge lift for the business."** The Director of a Public/Private long-term care partnership program said that the **"insurance industry has not done a very good job of educating people and publicizing the need for this product. Most of them are focused on life or property and casualty instead."**

**Question 4: Among the three main players in long-term care—the financiers, the providers, and the insurers—do you think there should be more communication and cooperation? How? What are the obstacles?**

Nearly all of the respondents answered this question with a resounding "yes." As Table 8: "More Communication/Cooperation" shows, 78 percent scored 4s and 5s, indicating that they strongly favor more communication and cooperation between industry groups. Table 9: "Principal Source of Obstacles to Greater Communication" shows that Financiers, at 21 percent, were seen as the biggest single obstacle to communication and cooperation among the respondent groups. Insurers, at 14 percent, were the least likely to obstruct this kind of progress. By far the biggest obstacle in the minds of most respondents, however, was simply the existence

of a wide range of general issues pulling the groups apart through no fault of any one particular group. A narrative summary of the answers to this question will help to clarify the aggregate data in the tables.

Table 8: More Communication/Cooperation

	N/A		No		Yes $\longleftarrow$ $\longrightarrow$ Strong Yes							
			1	2	3	4	5					
<i>Financiers (22)</i>	1	5%	0	0%	0	0%	5	23%	6	27%	10	45%
<i>Providers (47)</i>	2	4%	0	0%	2	4%	5	11%	16	34%	22	47%
<i>Insurers (50)</i>	0	0%	1	2%	4	8%	7	14%	24	48%	14	28%
Total (119)	3	3%	1	1%	6	5%	17	14%	46	39%	46	39%

Table 9: Principal Source of Obstacles to Greater Communication

	<i>Financiers</i>		<i>Insurers</i>		<i>Providers</i>		<i>General</i>		<i>N/A</i>	
<i>Financiers (22)</i>	6	27%	1	5%	4	18%	10	45%	1	5%
<i>Providers(47)</i>	8	17%	7	15%	5	11%	25	53%	2	4%
<i>Insurers (50)</i>	11	22%	9	18%	12	24%	16	32%	2	4%
Total (119)	25	21%	17	14%	21	18%	51	43%	5	4%

Although most of the respondents favored more communication and cooperation, they also explained why sustained attention across groups is so difficult to achieve. For example, here is what they said about each other: Financiers, providers and insurers have no clear common interest. They serve different, non-intersecting stakeholders. They have separate profit centers. None of the groups has a long-term vision for the future. They are constantly responding to crisis and change in their own arenas of interest. There is no incentive, no mechanism, no leadership, no driving force to bring them together. They are afflicted by professional myopia. Financiers and providers especially do not look beyond the initial deal. None of the groups have been challenged to think "outside the box." While communication is feasible, cooperation will be difficult. Especially providers and insurers tend to come together at the most difficult possible time, that is, at the point of claim. Each group feels the other does not understand its business. They lack, and desperately need, "translators" to help them communicate. Substantively, there is a real need to get everyone's focus off bricks and mortar (real estate) and onto the needs of clients and provision of care.

The main obstacle to capturing the financiers' attention is that they are only interested in immediate investment opportunities. Respondents made comments like these: The financiers want proof of return on capital now. They want profitability next quarter. They only care about the numbers. They analyze the business deal in isolation from broader policy issues. Wall Street is momentum-oriented, by far the most reactionary of the industry groups. The lenders are the

least educable. They tend to like Medicaid and Medicare because, although those programs may pay too little, at least they do pay. The financiers have come to see seniors' housing as a low-margin business with many traps, so they are migrating to other less problematical, more profitable sectors of the economy.<sup>20</sup>

Among the three groups, providers are the pivot point because they communicate with financiers frequently and with insurers to some extent, whereas financiers and insurers tend not to communicate at all under normal circumstances. Nursing homes are so bogged down in their disastrous problems right now that they are just trying to "**drain the swamp**" and "**dig out.**" They have a siege mentality combined with "**externally produced clinical depression.**" Long-term care insurance, for example, is just not on the "**radar screens**" of the providers (or the financiers), because it is such a small factor in their revenues. To get them to take that product seriously, they would need to see hard evidence of how long-term care insurance could improve their profitability. "**Pie in sky by and by**" is just not going to capture their interest.

The Insurers' lack of understanding of the provider industry (as documented in responses to Question 1) showed through clearly on the answers to Question 4 also. A best-selling author and business analyst observed that "**The insurance industry has been on cruise control for 100 years luxuriating in [the easy money from] life insurance.**" There was a perception among respondents that insurers are lazy, reluctant to understand providers' concerns, and afraid to get involved. Insurers, on the other hand, focused on the issue of conflicting goals and distrust. According to the President of a long-term care insurance company:

**Insurers have always been suspicious of providers' ultimate goals. Insurers don't want to pay anti-selective claims. They don't want to appeal to those most likely to abuse the system. Providers want claims paid in the short term. These are not the people insurers want to insure. Providers aren't interested in people who won't need care for 20-25 years. Providers won't think long-term and insurers are afraid of thinking short-term. Their interests are too diverse to bring them together.**

Another long-term care insurance President says the biggest problem of working with providers is that "**they do not see their payoff for years in advance.**" Insurers also emphasize the providers' focus on Medicaid and Medicare financing to the exclusion or minimization of private financing alternatives, especially insurance. Ironically, Financiers tend to emphasize the point that the provider industry is focused on financing, instead of providing high-quality care.

Several respondents remarked on an alarming lack of knowledge among the public, state and federal legislators, and even among the financiers themselves regarding the long-term care profession's dire straits. There is a "**rampant deficiency of understanding**" as one Provider put it. Nevertheless, a strong sense prevails among all three groups that the industry's current

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<sup>20</sup> "The healthcare industry has sunk to a new low in the eyes of lenders, with 85 percent (up from 69 percent last quarter) saying they won't lend to a healthcare concern, according to a survey of 95 lenders conducted by Phoenix Management Services of Philadelphia. The most unattractive healthcare segment was not-for-profit hospitals, followed by managed care companies, for-profit hospitals, home health agencies, physician practices, and nursing homes. Assisted living was deemed unattractive by one-third of respondents." (\_\_\_\_\_, "Lenders Down on Healthcare," *Contemporary Long-Term Care*, May 2000, p. 69)

tribulations may have opened people to the possibility of considering change. More creative initiatives than have been entertained heretofore may be ripe for review. As the current crisis stabilizes, the time may be right to try out new ideas and alternative strategies. Some Financiers sense that they should take a greater interest in insurance and public policy issues in order to protect, expand and enhance their investments and opportunities. The big question is How? The consensus answer was that financiers, providers and insurers should come together more often in conferences and meetings and that they should communicate more frequently through newsletters, speakers, and conversations, which intersect the interests of the three groups. All communication needs to emphasize the benefits to and the self-interest of each industry and company. A trap to be avoided by common action is that, as the economy improves, politicians and populists will tend to turn even more heavily to public entitlements at the expense and to the further duress of the three private sector groups. A long-term care insurance executive said: **"When I hear politicians pontificating to us insurers about how we should cover everyone and be more caring, I just want to beat them up."**

We will close this section of the report with a series of quotes from the survey respondents that pinpoint the nature and gravity of the long-term care problem, but also suggest some hopeful possibilities and opportunities.

#### **Quotes from Financiers :**

"Part of the long-term care industry problem is that it grew up 'ass-backwards.' Unlike other industries that grow out of a need, real or created by an entrepreneur, Medicaid decided who would get benefits, what the benefits would be, how much they would cost, and kept the consumer out of it. The industry has evolved to provide a service consistent with what the State pays. They have not reached the consumers."

"There is no financial market for nursing homes or assisted living facilities now. It's all dried up until things improve.... If I'm an investor in the nursing home industry, which we have been in the past, my interest in putting money to work there now is non-existent. The government dictates whether or not it is a viable business. No one is empowered because the business is controlled by the government. Changing this will require a very difficult grass roots effort. It will be interesting and valuable to try."

"Lenders may believe government cannot pay the long-term care bill indefinitely, but they keep coming back because they also know that government cannot walk away from the problem. They are interested in long-term care insurance, but they have not seen evidence that it is a viable force to increase demand for senior housing properties and services. "

"The perspective we have as financiers is that Medicare and Medicaid are fairly stable sources of cash and collateral for making a loan, especially a short term loan. Your risk is not significant."

#### **Quotes from Providers :**

"The obstacles are self-imposed. Each group carries on conversations within itself without the kind of outreach that is needed. It is fair to say the provider community has not reached out to



the insurance community as much as we're going to have to do. We have to see ourselves as partners. The same goes for the financier side. Relief is not going to come from the government."

"These are three distinctly different constituencies with their own agendas. They need to protect their own turfs. Until we bring these constituencies together, nothing will happen. Government bureaucrats feel they need to patronize the public and take care of them, but there is a strong consumerism movement in this country and consumers will win."

"If everyone could agree on the basics of the problem, it would go a long way toward finding the solutions. We have to stop focusing on the bricks and mortar and focus on the product. All three of us [financiers, providers, and insurers] need to listen to each other and to the marketplace."

"Short of a crisis to bring national attention about LTC financing, it is going to take vision and innovation to get those groups to perceive themselves as having a common interest."

"I don't understand how any of these groups can make financial decisions without understanding the entire marketplace."

"Insurers are the crucial element. Everyone must be focused on how we can help the private insurance sector write more business."

#### **Quotes from Insurers :**

"Financiers are motivated by the belief that by investing in long-term care they will get more of a return on their capital than by another alternative. They would be crazy not to understand what is going on with the major payers, but evidence suggests they make decisions frequently without taking these things into consideration."

"Providers are saying why don't you pay for everything? Providers have all these wonderful ideas about how insurance should work."

"We have diametrically opposed goals. My goal is to select a group of people who will not use their facilities. Their goal is to fill beds. Analogy: us partnering with facilities would be like a life insurance company partnering with a chain of undertakers."

"Rather than trying to work out a set of policies that makes sense in terms of what works, we all operate in our own little silos and we don't work together. There is no forum for us to communicate. Some industry third party ought to promote the needed communication. We need to be a sounding board for each other. We've been guilty of just assuming we know how things work in the other sectors. We have not done the research necessary to make things work right."

"I think there is a clear public policy issue on which all these groups have a common interest, not just as business people but as citizens. The idea that government is going to pay for long-term care or that people can do Medicaid planing to shift the responsibility is something we should oppose. Individual responsibility is going to work best. I advise everyone to have long-term

care insurance. It is hard for me to understand why anyone would want to invest in a facility that depends on Medicaid financing."

The preceding grab bag of comments suggests that long-term care financiers, providers and insurers have many divergent practical concerns, but that these conflicting interests are underlain by a common theoretical interest. The three groups may fight among each other as they balance the market demands of investors, operators, funders, and clients, but they share one fundamental goal that must be achieved if long-term care is to emerge from its current doldrums. On this one thing they agree. The current crisis is dire. Somehow, the profession of long-term care must reduce its dependency on public financing, which drags like an anchor on profitability and quality of care. By some means or another, long-term care must attract more of the consumer-driven, private financing that will lift all boats. Such movement as does occur in public policy today, however, seems to be in the opposite direction, toward more reliance on government financing and regulation. Why is this true and what should be done about it? Those are the main questions that the last two sections of this report will address.

## **The Triathlon vs. The Triumvirate**

We turn—in this section only—away from objective recounting and analysis of the interviewees' statements to interpretation, hypothesis and editorial comment. If, as the interviews suggest, excessive public financing and heavy-handed government administration are the primary causes of America's long-term care service delivery and financing problems, why doesn't the private sector, including the Financiers, Providers, and Insurers interviewed for this study, offer a better system and effectuate the change? If the LTC Triathlon (long-term care's race for survival) requires private capital, services, and financing, why can't the private sector deliver those goods without leaning on the government so heavily for support? In other words, if the status quo in long-term care is unsatisfactory, why does it remain entrenched? Who benefits from things as they are? And how do the beneficiaries of stasis protect their interests?

Just as three groups comprise the private sector of long-term care, three groups make up the dominant public sector of the field as well. This "LTC Triumvirate" includes the Government, the Entitlement Lobby, and several private-sector Enablers of public sector dominance. How do each of these groups benefit from the status quo? Why and how do they advocate more and more of the same policies, which (according to most of the respondents to this survey) caused the problems in the first place?

Government, the first component of the LTC Triumvirate, includes both politicians and public administrators. Politicians have a very short time horizon. One of our survey respondents quoted Winston Churchill to the effect that: **"Politicians think about the next election; statesmen think about the next generation."** Unfortunately, America has a far greater supply of politicians than statesmen. The short-term interests of politicians are better served by promising immediate give-aways (such as a prescription drug program or tax credits for current caregivers) than by tackling the tougher challenges of the future (targeting Medicaid eligibility to the needy and providing tax incentives to encourage the purchase of private long-term care insurance.) That is why the center of gravity in public policy discussions about long-term care is nearly always on the side of increasing public benefits instead of encouraging private responsibility. Similarly, public program administrators benefit by expanding their budgets and programs, not by reducing them. That is to say, they win by failure (which increases public dependency on their programs) and they lose by success (which reduces their client population.) Their primary challenge is to maintain and expand their power and influence while sustaining and growing the need for their services. Unlike the standard practice in a market economy, bureaucrats rarely benefit personally by providing a top quality product or service in a highly efficient and cost-effective manner. This is not to say that the ranks of politicians and public administrators do not include many highly dedicated, hard-working, and sincerely idealistic people. They do. The problem is not the people, but rather the existing system's inherent tendencies and perverse incentives.

A second member of the LTC Triumvirate is the Entitlement Lobby. It includes advocacy groups, their members and beneficiaries, and such think tanks and academics as are disposed to justify the groups' demands intellectually. Senior advocacy groups promote and pursue the "rights" of some people (the aging) to receive benefits provided by other people

(taxpayers) through an enforcing intermediary (government). Advocacy groups almost never encourage personal responsibility and almost always champion publicly financed programs. Their dependent populations usually include genuinely and innocently needy people who deserve everyone's concern and compassion. Unfortunately, the advocacy groups also promote the interests of a much wider and non-needy clientele who merely want something for nothing at others' expense. Without well-published academics in foundation-backed think-tanks to endorse their causes, however, the advocates' grand plans for bigger, more expensive public programs might just wither away. Instead, numerous scholars eagerly reprise tired old justifications of the status quo as they continue to effuse ever-more-grandiose spending plans for the future. Again, however, the vocalized motives and intentions of individual Entitlement Lobbyists are usually above reproach. They just want to help people, even as they employ means that, albeit unintentionally, ultimately defeat their altruistic objectives.

The third component of the public sector's LTC Triumvirate, is actually comprised entirely of private sector actors. The Enablers include Medicaid estate planning attorneys, nursing home litigators, and a minority of truly exploitative providers. Medicaid planners garner large fees to impoverish frail or infirm elders artificially for the purpose of qualifying them quickly (and without spending down) for the program's publicly financed nursing home benefits. Medicaid planning reduces the number of market-rate private payers in nursing homes and increases the number of low-pay welfare recipients they have to serve. A high Medicaid resident census—the national average is 70 percent—impedes nursing homes' ability to provide quality care by trained professional staff. A growing army of nursing home litigators, sometimes the very same lawyers who wangle welfare for their well-heeled clients in the first place, are taking advantage of the providers' dilemma by suing them aggressively for giving inadequate care. While every American is entitled to seek redress of grievances in court, something is fatally wrong with a publicly financed system that makes institutionalized low reimbursement into a self-fulfilling prophecy of deficient care. Finally, some long-term care providers put most of their energy into maximizing public reimbursements and seeking new government favors by hook or by crook. They spare little effort on finding and pursuing sources of private payers and revenue. Such short-sighted providers were so successful for so long taking advantage of the public funding programs that they now lack the will or the way to compete in the private marketplace. Even these three kinds of Enablers, however, often express high moral purpose—sometimes very sanctimoniously—to justify their actions and policy positions. Can we blame them too severely for profiting from a government-supported system that rewards their legal, if ethically challenged, methods?

Query: Is it possible to forge an alliance of the best in the public sector with the best in the private sector and cut through these problems? How can almost everyone be right about the goals and well-intentioned about the means of improving long-term care, and yet the dysfunctional status quo continues? We believe that the responses to this survey, as recounted above, provide valuable clues to answer these questions. Clearly, efforts to consolidate or compromise the interests of the Triathlon components (Financiers, Providers and Insurers) with those of the Triumvirate (Government, Entitlement Lobby and Enablers) are doomed to failure until we identify and remove from consideration the members of each component who benefit from, and therefore, aggressively promote the status quo. To do this, we need to focus on the Triathlon and Triumvirate components separately. The Triumvirate is well-represented in the

academic and popular media. It is easy to see why it leans toward support and expansion of the existing, publicly based financing system. The Triathlon components which were interviewed for this study remain the puzzle. As a group, their mutual interest clearly lies in weaning long-term care off its dependency upon public financing and attracting a wider range of private financing alternatives. Nevertheless, as this study shows, the financiers, providers and insurers remain divided and weak as pertains to their pursuit of public policy to reduce government dependency and increase private financing. The obvious conclusion is that the private sector forces need to coordinate their interests and develop a united front, before they pursue further compromise or cooperation with the public sector. That is the thrust of our conclusions and recommendations.



## **Conclusions and Recommendations**

We are now prepared to answer the questions that this study set out to address. First: How do the private sector stakeholders (Financiers, Providers and Insurers) account for the country's problems of long-term care service delivery and financing? With very few exceptions, our respondents laid the primary responsibility for nursing home bankruptcies and quality of care deficiencies upon Medicaid and Medicare. These programs pay too little and expect too much, they say. Furthermore, public financing has forced providers to serve the government first instead of consumers to the detriment of all three. Several respondents acknowledged, however, that some providers got into trouble primarily because of poor management. Either, they tried to exploit Medicare excessively, as in the case of some nursing homes and home health care agencies, or they seduced investors with unrealistic and unrealized promises, as in the case of some assisted living facilities. All agree, however, that more private financing and less dependency on Medicaid, Medicare or other public financing sources would be a boon to consumers and providers. The question remains, how can the goal of increased private financing be achieved when the tendency to depend on public financing remains so strong?

Second, what do the Triathlon stakeholders know about each other's businesses? The answer is "very little." Specifically, most Insurers had little knowledge of the Providers' travails and practically no understanding of the causes. Conversely, Financiers and Providers knew little about private long-term care insurance or the conditions that inhibit its sale. Many representatives of each of the three groups acknowledged the value and importance of understanding each other's businesses better. Unfortunately, the unique exigencies and competitive interests of each business tend to pull them apart into separate "silos." The lack of communication between these silos solidifies and exacerbates ignorance and misunderstanding, which in turn discourages further attempts at communication. This cycle is hard to break, because the three groups perceive their interests so differently.

Third, how do the Financiers, Providers and Insurers perceive their interests and what kinds of misunderstanding or distrust pull them apart? In general, respondents focused on their differences, not their common interests. All three groups said they have "different, non-intersecting stakeholders," "separate profit centers," and no "long-term vision" because they are "constantly responding to crisis and change in their own arenas of interest." No one thinks beyond the "initial deal" or "outside the box," were common statements. Each group feels the others do not understand their business, yet they often acknowledge they themselves do not understand the others' businesses.

The common evaluation of financiers is that they care about little besides short-term profitability and "running the numbers," so they have abandoned long-term care in spite of the demographic imperative to repair that market. Similarly, providers are seen to be under such immediate financial duress that they remain focused on the past—fighting for more Medicaid and Medicare reimbursement and against excessive government regulation—instead of looking to the future by finding new sources of full-pay private financing for a huge, new, on-coming generation of residents and patients. Insurers, who should be showing the others why and how long-term care insurance can answer their needs now and in the future, show little interest in or

understanding of the service delivery system, offer little more than "pie in sky by and by," and remain on "cruise control." That is how the three private sector groups see each other.

Consequently, mistrust and distrust abound. Once burned, financiers are twice cautious about any claims or promises coming from the provider community. Neither of the other groups thinks the insurers have offered products yet, or are serious about designing ones in the future, that could provide them relief in the short-, near-, or even long-terms. Insurers, on the other hand, figure that providers (directly) and financiers (indirectly) only want to find some new deep pockets to replace the government's recently padlocked treasure chest. Thus, circumstances weigh against communication now and cooperation in the future between these groups.

Fourth, are their basic interests primarily and fundamentally in conflict or is there really an underlying basis for agreement? The differences and tensions described above between these groups are real and deep. Nevertheless, most of our respondents shared numerous common opinions and interests. They tend to see government as the problem, not the solution. They favor private financing, including long-term care insurance, if properly designed and marketed. They would like to see scarce public resources targeted more narrowly to the needy through effective means testing. They would like to see quality of care ensured by competitive market pressures instead of heavy government regulation. Some strongly favor, others vehemently oppose, publicly financed long-term care vouchers, but nearly all want to see consumers re-empowered to demand choice, access, and quality. They believe that conditions in the long-term care financial markets and the service delivery system have reached an unprecedented nadir. They sense, however, that because of the current crisis, the stage is set for creative, or even radical, new approaches to long-term care to be seriously considered. Thus, despite their differences, the Financiers, Providers and Insurers we interviewed recognized that they share even more basic common interests.

Fifth, could these groups benefit from more communication and how might cooperation among them occur? With very few exceptions, respondents thought more communication was a very good idea and that cooperation, although extremely challenging and difficult, was a highly worthy goal. To get progress started toward these objectives, they suggested that each group support more conferences, publications, and speeches that bridge between all three sectors. They said they all need to develop and support more "translators" who understand both the conflicting superficial interests and the underlying common interests of all three groups and can therefore foster more understanding and cooperation between them. Many warned, however, against pollyannaish expectations. They urged the need to keep the focus of any initiative always on the self-interest of each individual industry, company, and consumer. Only if every sector of the long-term care market stands to win from change will change be able to overcome the inertia of entrenched interests that thrive on the status quo.

Finally, then, is it possible for long-term care financiers, providers and insurers to work together more effectively toward their common interests and the interests of their common clients? That is the big question that remains to be answered and that cries out to be addressed. This study only identified and elucidated the problem; it does not contain a solution. To find a solution, the financiers, providers and insurers of long-term care will have to confer, compromise, plan, and mobilize.



They should ...

- Come together in meetings that cross-cut their areas of specialization,
- Pursue a better understanding of each other's businesses and challenges,
- Formally identify and promulgate their common perspective on long-term care problems,
- Develop a compelling public policy proposal that would enhance their business interests and improve long-term care for everyone, and
- Join forces and mobilize to encourage private financing of long-term care as a means to save scarce public resources for the needy.

To help get this process started, the Center for Long-Term Care Financing hopes to sponsor an "LTC Summit" conference in 2001 at which leading financiers, providers and insurers can communicate with each other and recommend coalition-building efforts to be led by their respective trade associations. Whether or not we convene the "LTC Summit" will depend on the level of interest and support expressed by all three components of the LTC Triathlon. Little progress can be made without a groundswell of interest in working together, which this report may help to build. For this reason, we urge everyone who reads this study and sees merit in its findings to help the Center for Long-Term Care Financing distribute the report to as many readers as possible among the financiers, providers and insurers of long-term care.



## **Appendix A: Contemporary Long-Term Care Magazine Article**

The following article was published in the September 2000 issue of Contemporary Long-Term Care magazine.

### **The LTC Triathlon by Stephen A. Moses**

America's long-term care service delivery and financing system is a mess. Seven nursing home chains have declared bankruptcy. New assisted living facilities are filling too slowly. Our home and community-based services infrastructure is under-developed and starved for financing. LTC stock prices are down and capitalization by debt or equity is stymied. The supply of both free and paid caregivers is drying up. Most Americans cannot afford expensive formal long-term care services. Medicaid and Medicare pay too little to assure access to quality care. Few seniors and almost no baby boomers own long-term care insurance. Aging demographics guarantee an ominous future for long-term care. What is wrong and how can we fix it? That's what this article will explain.

How did we get into such a muddle in the first place? The answer to this question points to a solution. Thirty years ago the need for long-term care was increasing rapidly. Left to their own devices, the public would have voted with their dollars for a seamless continuum of care. Low cost, unintrusive options such as chore services, home care, adult day care and assisted living would have thrived immediately. Expensive institutional care in nursing homes would have been used only as a last resort. Private insurance products designed to price and spread the risk of catastrophic long-term care expenses would have evolved early and fast. By now we would have the comprehensive service delivery and financing system that we only dream about today.

Unfortunately, the market was not allowed to work. Instead, with every good intention, the government made free or subsidized nursing home care available through Medicaid. If you wanted home and community-based care, you had to pay for it out-of-pocket. If you were willing to go to a nursing home, Medicaid would pay and enforce quality care.

The public is smart. They sent Grandpa and Grandma to the Medicaid-financed nursing home. The nursing home industry was smart. They built more beds as quickly as possible to take full advantage of the funding bonanza. The new beds filled with Medicaid recipients as fast as the industry could build them.

Before long, Medicaid nursing home costs were out of control. The government tried to stanch this fiscal hemorrhage by capping the supply (certificate of need or CON restrictions) and price (limits on reimbursement) of Medicaid beds.

Predictably, demand skyrocketed. Occupancy jumped to 95 percent. Nursing homes could easily fill every bed if they were willing to accept Medicaid's low reimbursement rates. But they could not survive financially without attracting enough private payers at a much higher market-based rate of payment.

If the nursing homes appealed to private payers by offering better services, they were accused of discriminating against Medicaid patients. If they tried to economize on their growing Medicaid census, they were accused of sacrificing quality of care. Slowly, the vise closed on the nursing home industry. Inadequate reimbursement squeezed in from one side. Quality of care mandates (OBRA '87) squeezed in from the other side.

In the meantime, a whole new sub-practice of law evolved promising access to Medicaid nursing home benefits for everyone, regardless of wealth and without spending down their own assets. Medicaid estate planning attorneys can artificially impoverish almost anyone overnight by taking creative advantage of loopholes in the welfare law. They've successfully evaded every effort by the government to control this practice, including criminalization. Nowadays, they are working the back end too. They litigate against the very same nursing homes whose cash flow they destroyed by overloading them with Medicaid residents.

To add insult to injury, the government repealed the only legal assurance of adequate reimbursement the industry has ever had (the Boren Amendment). The last straw came when Medicare imposed a prospective payment system on nursing homes without adequate compensation. The logical consequences of these counterproductive policies are proceeding inexorably toward a dismal end that was predictable from the very beginning.

So, here's the history of long-term care in a nutshell: The government anesthetized the public to the cost of long-term care by providing free nursing home care through Medicaid and extended home health benefits through Medicare. Consequently, privately financed home care and assisted living developed slowly and private long-term care insurance remains stunted. Without a reliable source of adequate financing, nursing homes are going under, long-term care stocks are in the tank, and the future looks bleak for long-term care in general—just as the Age Wave begins to crest!

What can we do? First, we have to wean the public and the industry off their excessive dependency on government financing. Second, we have to infuse long-term care with a reliable source of private financing for assisted living and nursing homes. Finally, we need to get out of the way and let the private marketplace fill the long-term care continuum with home and community-based services that support and prolong the independent living seniors crave.

How do we do all that? The Center for Long-Term Care Financing has devised a public policy proposal called "LTC Choice" to achieve these goals. In briefest outline, the plan is (1) to educate people about the risk and cost of long-term care while they are still young enough, healthy enough, and prosperous enough to plan, save and insure, (2) to notify people simultaneously of the "LTC Contract" by which every American must acknowledge individual responsibility for his or her future long-term care expenses, (3) to extend to people who fail to insure against this risk a line of credit fully collateralized by their estates which enables them to

purchase LTC services in the private marketplace, and (4) to recover the cost of care funded by such lines of credit from the estates of people who failed to plan early, prepare diligently and insure fully.

With the "LTC Choice" plan in place, most Americans will insure for the risk of long-term care to avoid putting their estates at risk. Those who fail to insure will gain access to quality LTC services in the private market financed by a government-backed, privately administered reverse mortgage on their estates. Some people will remain who neither purchased insurance nor possess estates. They will rely on a financially re-invigorated Medicaid program that no longer has to support middle and upper-middle class people on public assistance. In other words, if we remove the perverse public policy incentives that have trapped them on welfare, most Americans should, could, and would take responsibility for themselves, pay privately for their own care, and create a new source of private financing for all sectors of the LTC service delivery system.

To make "LTC Choice" a reality, however, we must forge a new economic and political force that will advocate for it in the halls of power. The three major stakeholders in the private long-term care marketplace—the Financiers, the Providers, and the Insurers—have to pull together in common purpose toward this end. Unfortunately, these groups have rarely communicated with each other, much less worked together. Yet each stands to prosper if public financing is targeted to the genuinely needy and everyone else is encouraged to save, insure, and pay privately for long-term care.

The Center for Long-Term Care Financing is starting a campaign to build bridges of communication and cooperation between these critical groups. We will interview the major Financiers, Providers and Insurers, bring them together for a weekend intensive, and publish a report with a plan of action. If these major suppliers of LTC capital, services, and revenue recognize and act upon their common interests, they can quickly cure what ails the long-term care system. But there is no time to waste. This is a race for survival. Call it the LTC Triathlon. And let it begin now!

***Stephen A. Moses is President of the Center for Long-Term Care Financing in Seattle, Washington. The Center's mission is to assure access to quality long-term care for all Americans by encouraging private financing and discouraging excessive dependency on public assistance. The ideas and proposals in this article are fully developed in two white papers: "LTC Choice: A Simple, Cost-Free Solution to the Long-Term Care Financing Puzzle" and "The Myth of Unaffordability: How Most Americans Should, Could and Would Buy Private Long-Term Care Insurance." The Center for Long-Term Care Financing also publishes a free on-line newsletter called "LTC Bullets." For further information, consult the Center's web site at [www.centerltc.org/](http://www.centerltc.org/).***



## **Appendix B: List of Survey Respondents**

### ***FINANCIERS***

Mary Kay Bourbulas  
Portfolio Manager  
Strong Capital Management  
Interviewed August 1, 2000

Jeff Davis  
President  
Cambridge Realty Capital Companies  
Interviewed June 16, 2000

Andre Dimitriadis  
Chairman and CEO  
LTC Properties, Inc. and LTC Health Care, Inc.  
Interviewed July 27, 2000

Geoffrey Dohrmann  
Chairman and CEO  
Institutional RE, Inc.  
Interviewed June 22, 2000

Skip Frey  
Vice President  
Herbert J. Sims  
Interviewed July 28, 2000

Andrew Gitken  
Health Care Analyst  
PaineWebber  
Interviewed August 10, 2000

John Hindelong  
Vice President/Healthcare Facilities and Services Sector  
Donaldson Lufkin & Jenrette  
Interviewed August 3, 2000

Tom Jazwiecki  
Chief Financial Officer  
Healthware Solutions  
Interviewed June 12, 2000

Alice Katz  
President  
The Vinca Group, LLC  
Interviewed June 15, 2000

Robert Kramer  
Executive Director  
National Investment Center  
Interviewed April 19, 2000

Ray Lewis  
Senior Vice President  
Heller Financial, Inc.  
Interviewed June 20, 2000

D. Scott Mackesy  
Principal  
Welsh Carson Anderson & Stowe  
Interviewed August 8, 2000

Kevin McMeen  
Senior Vice President  
Heller Financial, Inc.  
Interviewed June 12, 2000

Stephen Monroe  
Editor  
The SeniorCare Investor  
Interviewed July 27, 2000

Scot Park  
President  
Cambuslang Diversified Services, LLC  
Interviewed June 20, 2000

Stephen Press  
Vice President Business Development  
Health Care Property Investors  
Interviewed June 20, 2000

Joseph Resor  
CEO and President  
Resor Financial Group, Inc.  
Interviewed July 26, 2000

William Shine  
Executive Vice President for Health Care  
GMAC Commercial Mortgage Corp  
Interviewed June 22, 2000

Sheryl Skolnick  
Managing Director, Research  
Robertson Stephens  
Interviewed June 5, 2000

Jean Swenson  
Director  
Credit Suisse First Boston  
Interviewed July 28, 2000

Ronald Tinsley  
Partner  
PriceWaterhouseCoopers LLP  
Interviewed July 18, 2000

Arnold Whitman  
CEO  
Formation Capital  
Interviewed June 19, 2000

**PROVIDERS**

Sam Adler  
Former Senior Editor  
Contemporary Long Term Care  
Interviewed April 20, 2000

Jim Bowe  
Vice President of Marketing  
Mercy Continuing Care  
Interviewed March 30, 2000

Keren Brown Wilson  
President and CEO  
Assisted Living Concepts  
Interviewed June 29, 2000

Steven Chies  
Vice President  
North Cities Health Care  
Interviewed June 12, 2000

Dwayne Clark  
President and CEO  
Aegis Assisted Living  
Interviewed April 13, 2000

Thomas Connaughton  
President and CEO  
American Association for Homecare  
Interviewed August 4, 2000

Kay Cox  
Vice President, Federal Government Relations  
Beverly Enterprises  
Interviewed June 9, 2000

David Durenberger  
President  
Public Policy Partners  
Interviewed July 27, 2000

Paul Erickson  
President  
Compass Care  
Interviewed May 9, 2000

William Floyd  
President, Chief Operating Officer  
Beverly Enterprises  
Interviewed June 22, 2000

Robert Greenwood  
Associate Director, Public Affairs  
AAHSA  
Interviewed April 17, 2000

Stephen Guillard  
President  
Harborside Healthcare  
Interviewed April 21, 2000

Blaine Hendrickson  
CEO  
Legacy Health Care  
Interviewed July 27, 2000

Albert Holbrook  
President and CEO  
Eden Care Senior Living Services  
Interviewed May 18, 2000

Maria Infante  
Registered Nurse and Attorney at Law  
Powers Pyles Sutter and Verville  
Interviewed April 19, 2000

Gary Jacobs  
President  
Capitated Health Care Services  
Interviewed July 28, 2000

Paul Klaassen  
Chairman and CEO  
Sunrise Assisted Living  
Interviewed April 24, 2000

Edward Kuntz  
Chairman & CEO  
Vencor Inc.  
Interviewed June 20, 2000

Larry Lane  
Vice President Government Relations  
Genesis Health Ventures  
Interviewed July 12, 2000

Jill Mendlen  
President, CEO  
Geriatrics Inc.  
Interviewed May 8, 2000

Jim Moore  
President  
Moore Diversified Services, Inc.  
Interviewed March 30, 2000

Dan Mosca  
President  
American Health Care Association  
Interviewed March 31, 2000

Elise Nakhnikian  
Managing Editor  
LongTermCareProvider.com  
Interviewed April 19, 2000

John O'Connor  
Senior Editor  
McKnight's Long-Term Care News  
Interviewed March 30, 2000



*The LTC Triathlon: Long-Term Care's Race for Survival*

Mary Ousley  
Vice President, Health Services  
Marriott Senior Living Services  
Interviewed May 10, 2000

Vicki Paul  
Associate Director  
Aunt Ann's Agency, Inc.  
Interviewed August 3, 2000

Bob Peirce  
CEO  
Guardian Health Care  
Interviewed June 12, 2000

Virginia (Ginny) Pinkerton  
Director of Quality Management and Regulatory Affairs  
AccentCare  
Interviewed August 4, 2000

Susan Polniaszek  
Senior Reimbursement Analyst  
AAHSA  
Interviewed April 14, 2000

Terry Raisio  
Vice Chair and COO  
LeisureCare  
Interviewed July 27, 2000

Charles Roadman  
President  
AHCA  
Interviewed July 11, 2000

Michael Rodgers  
Senior VP for Governmental Relations  
AAHSA  
Interviewed May 17, 2000

Dr. Judith Ryan  
President  
The Evangelical Lutheran Good Samaritan Society  
Interviewed June 5, 2000

Steve Savitsky  
CEO  
Tender Loving Care Health Care Services  
Interviewed August 2, 2000

David Schless  
Executive Director  
American Senior Housing Association  
Interviewed March 31, 2000

David Seckman  
Vice President, Regulatory Affairs  
American Health Care Association  
Interviewed April 6, 2000

Bruce Thevenot  
Executive Director  
Alabama Nursing Home Association  
Interviewed May 12, 2000

William Thomas  
President  
Eden Alternative  
Interviewed July 28, 2000

Dale Thompson  
President  
Health Dimensions  
Interviewed June 22, 2000

Robert Van Dyk  
President  
Van Dyk Health Care, Inc.  
Interviewed June 28, 2000

Mike Walker  
CEO, Chairman of the Board, Founder  
Genesis Health Ventures  
Interviewed May 24, 2000

Ronald Watson  
Senior Vice President  
Ovations (subsidiary of United Health Group)  
Interviewed May 10, 2000

Karen Wayne  
President/CEO  
ALFA  
Interviewed April 6, 2000

Paul Willging  
President  
Willging Associates  
Interviewed March 31, 2000

J. Robert (Bob) Wilson  
State President, CHCA, CEO  
Columbine Management Services  
Interviewed June 13, 2000

Margaret Wylde  
President & CEO  
ProMatura Group, LLC  
Interviewed March 30, 2000

Carl Young  
President  
NY Assn. of Homes & Services for the Aging  
Interviewed May 16, 2000

**INSURERS**

Lisa Alecxih  
Senior Manager  
The Lewin Group  
Interviewed July 10, 2000

Martin Bayne "Mr.LTC.com"  
President  
National LTC Associates, Ltd.  
Interviewed April 21, 2000

Gary Busack  
Vice President  
Transamerica-AEGON Insurance Group  
Interviewed May 5, 2000

Winthrop Cashdollar  
Director  
Center for Disability & LTC Ins., HIAA  
Interviewed April 21, 2000

Bob Clement  
Vice President  
MedAmerica Ins. Co.  
Interviewed April 17, 2000

Marc Cohen  
Senior Product Development Manager  
LifePlans, Inc.  
Interviewed April 17, 2000

Gary Corliss  
President  
AUL Long-Term Care Solutions, Inc.  
Interviewed April 26, 2000

Robert Dawson, Jr.  
Director of Consumer Affairs  
GE Capital Assurance  
Interviewed April 7, 2000

Ken Dychtwald  
President and CEO  
Age Wave, LLC  
Interviewed April 21, 2000

Mike Farley  
Senior VP and Chief Actuary  
LTC America  
Interviewed April 18, 2000

Richard Garner  
Vice President and Actuary, Long-Term Care  
The CNA Insurance Companies  
Interviewed April 20, 2000

Liz Georgakopoulos  
President, Supplemental Health  
Conseco  
Interviewed May 17, 2000

Lance Gish  
Senior Vice President  
Long Term Preferred Care  
Interviewed May 17, 2000

James Glickman  
President  
Life Care Assurance Company  
Interviewed May 15, 2000

Robert Glowacki  
Vice President, Government Affairs, LTC Division  
Aegon USA  
Interviewed April 18, 2000

Jason Goetze  
Assistant Director of LTC  
NW Mutual Life Ins. Co.  
Interviewed May 18, 2000

Ken Grubb  
President  
NY Life Admin. Corp.  
Interviewed May 17, 2000

Greg Gurlik  
Vice President, Product Development  
Fortis Long-Term Care  
Interviewed April 18, 2000

David Guttchen (State of Connecticut employee)  
Director  
Connecticut Partnership for Long-Term Care  
Interviewed August 4, 2000

Ronald Hagen  
Vice President LTC  
Northwestern Mutual Life  
Interviewed May 16, 2000

Dawn Helwig  
Consulting Actuary  
Milliman and Robertson  
Interviewed June 23, 2000

Yang Ho  
Vice President, Actuary for Individual Health & LTC  
Transamerica  
Interviewed June 12, 2000

*The LTC Triathlon: Long-Term Care's Race for Survival*

Gail Holubinka  
Director of Product Development  
Prudential Insurance  
Interviewed June 13, 2000

Charles "Chip" Kahn, III  
President  
HIAA  
Interviewed July 24, 2000

Spencer Lehman  
President  
Lehmann Wood Associates  
Interviewed May 9, 2000

Glen Levit  
President  
Penn Treaty Network America Ins. Co.  
Interviewed May 24, 2000

Don Lidke  
President  
Lidke and Associates, Inc.  
Interviewed April 20, 2000

Mark Litow  
Consulting Actuary  
Milliman and Robertson  
Interviewed July 26, 2000

Beth Ludden  
Vice President, Marketing and Sales  
New York Life  
Interviewed April 17, 2000

Nancy Magee  
Vice President  
Prudential Insurance  
Interviewed April 18, 2000

Dave Martin  
General Director, LTC Contracts and Legislative Services  
John Hancock  
Interviewed August 14, 2020

Mark Meiners, Ph.D.  
Associate Director  
Center on Aging, University of Maryland  
Interviewed May 24, 2000

Richard Merrill  
Senior Vice President  
Golden Rule Insurance Company  
Interviewed April 21, 2000

Bruce Moon  
Product Manager  
Golden Rule Insurance Company  
Interviewed April 19, 2000

Sam Morgante  
Director of Product Development and Gov't Relations  
GE Financial Assurance - LTC  
Interviewed May 15, 2000

Susan Morisato  
Senior Vice President and Actuary  
Bankers Life and Casualty  
Interviewed August 7, 2000

Bartley Munson  
President  
Munson & Associates  
Interviewed June 21, 2000

Dennis O'Brien  
Vice President and Actuary  
NYLIFE Admin. Corp.  
Interviewed April 19, 2000

Chris Perna  
President  
MedAmerica Ins. Co.  
Interviewed August 3, 2000

Sandra Pierce-Miller  
Project Director  
California Partnership for Long Term Care  
Interviewed June 30, 2000

Bill Robinson  
Past-President  
Fortis LTC  
Interviewed May 16, 2000

Joyce Ruddock  
Vice President, LTC Group  
Metropolitan Life Insurance Co  
Interviewed June 19, 2000

Gail Schaeffer  
Vice President  
John Hancock Long Term Care  
Interviewed May 15, 2000

Phyllis Shelton  
President  
LTC Consultants  
Interviewed May 1, 2000

Thomas Skiff  
President  
GEFA - LTC  
Interviewed May 30, 2000

Barb Stucki  
Director of Policy Research  
American Council on Life Insurance  
Interviewed June 1, 2000

Claude Thau  
President  
Thau, Inc.  
Interviewed April 2, 2000

Michael Uretsky  
Director, LTC Sales and Marketing  
Mazonson, Inc.  
Interviewed April 21, 2000  
James Wallace  
Chief of Staff/VP Marketing  
Conseco Health Division  
Interviewed April 19, 2000

Peter Weaver  
President, Strategic Alliances  
American Fidelity Assurance Company  
Interviewed April 17, 2000

## Appendix C: Methodological Comments and Data Analysis

by

Talia Clever, Research Coordinator  
Center for Long-Term Care Financing

This section provides an analysis of a subjective scoring system applied to the interview responses after the open-ended interviews were completed. As part of the analysis, a method was sought to assess aggregate trends in the interpretation of the responses among the three interview types. The researcher devised rating scales that corresponded to his sense of the knowledge and sentiments of the respondents. Data identifying the individual and their industry affiliation were removed from the response forms (except for information within the text of the response and the interviewer's notes about the interview at the time). The researcher scored these mostly anonymous forms and these data were entered on a spreadsheet that included the industry type.

The following tables display the results of this coding process for the responses to each question. The researcher applied an impressionistic coding system after the open-ended interviews were complete. The purpose of the interviews was to engage the respondents in a dialogue to identify areas of misunderstanding, distrust, or common interest between the Financiers, Providers and Insurers of long-term care. Because they were not directly asked all of the questions on which they were rated, some responses could not easily or accurately be scored for this analysis. The researcher assigned no answer (N/A) when there was no relevant response to score or the answer was indeterminate for this rating system.

### The Respondents

The interviews included 50 people affiliated with insurance, including company CEO's, agents, trainers, and advocates. Providers, including CEO's of publicly-owned companies and trade associations, accounted for 47 interviews. There were 22 Financier interviews, which included analysts specializing in long-term care and health care lending. Of the 119 interviews, 19% were Financiers, 42% were Insurers, and 39% were Providers. This was not a random or representative sample. It was similar to a snowball sample in which key informants were asked to name others in each group (Financiers, Insurers, and Providers) who might be a valuable resource for this project. This method provided new contacts and an indication of whether the individuals' networks overlapped.

<i>Type</i>	<i>Number</i>	<i>Proportion</i>
<i>Financiers</i>	22	19%
<i>Providers</i>	47	39%
<i>Insurers</i>	50	42%
Total	119	100%

In the tables below, each row displays the number and percent of the interview type with that response. For example, eleven respondents in the Financier category were rated as having a high level of knowledge of the long-term care system, which is 50% of the total number of Financiers. Each column is totaled to get a sense of the average response for the entire group of 119 interviews. The comparisons are kept at the level of simple proportions, as this was adequate to measure the impressionistic sense of the trends in the replies.

### **Question 1: Why do you think the long-term care system is having so much trouble these days, i.e. nursing home bankruptcies, slow assisted living fills, low stock prices, etc.?**

Table 1: Level of Knowledge and Sophistication on the Long-Term Care System

The first question sought to elicit the respondent's perspective on what is causing problems in the current long-term care system. The interviews were then scored on the level of sophistication, indicated by the level of detail and differentiation of nursing home, assisted living, home care and other service and housing markets.



	Low ←————→ High									
	1		2		3		4		5	
Financiers (22)	10	45%	6	27%	3	14%	2	9%	1	5%
Providers (47)	22	47%	18	38%	7	15%	0	0%	0	0%
Insurers (50)	22	44%	22	44%	6	12%	0	0%	0	0%
Total (119)	54	45%	46	39%	16	13%	2	2%	1	1%

Table 4: Likelihood of a New Government-Financing Source for Long-Term Care

As part of the previous question, interviewees considered the likelihood of a new government financing source or program to cover long-term care. Respondents thought that a new program was by no means certain or even likely. Most people in each group thought new government financing was unlikely or thought the chance of a new program was “slim to none.” Providers were relatively optimistic with nearly a third indicating that “maybe” a new government source of financing would be forthcoming.

	Slim to none 1		Unlikely 2		Maybe 3		Likely 4		Inevitable 5	
Financiers (22)	4	18%	14	64%	3	14%	1	5%	0	0%
Providers (47)	9	19%	22	47%	15	32%	1	2%	0	0%
Insurers (50)	20	40%	28	56%	2	4%	0	0%	0	0%
Total (119)	33	28%	64	54%	20	17%	2	2%	0	0%

**Question 3: How about private long-term care insurance? What do you think about that? Why has LTCI been so slow to take off?**

Table 5: Opinion of Long-Term Care Insurance(LTCI)

If respondents expressed an opinion about LTCI or their comments seemed to give a general impression, the direction of that opinion was rated from negative to positive. The average opinion of all the interviews was positive, nearly three-quarters having a positive impression (4 and 5). The Insurers were stronger in the positive direction (84% at 4 or 5) than average while Financiers gave somewhat lower ratings (50% at 4 or 5).

	N/A	Negative ←————→ Positive										
		1		2		3		4		5		
Financiers (22)	3	14%	0	0%	3	14%	5	23%	6	27%	5	23%
Providers (47)	0	0%	1	2%	5	11%	8	17%	21	45%	12	26%
Insurers (50)	1	2%	0	0%	2	4%	5	10%	33	66%	9	18%
Total (119)	4	3%	1	1%	10	8%	18	15%	60	50%	26	22%

*Owns long-term care insurance?* Although respondents were not asked directly whether they had long-term care insurance for themselves or their parents, some volunteered this information. Financiers discussed their personal experience most often; six had policies for themselves or someone in the family. Of Providers, four said they or their parents had policies. Only one Insurer mentioned his own experience with long-term care insurance.

Of the eleven people who discussed their own experience with long-term care insurance, nine rated high on their opinion of the product in general. Two had fairly low opinions (2 and 3) of the product in general, both were Financiers.

**Table 6: Knowledge of Long-Term Care Insurance**

In response to why they thought long-term care insurance was slow to take off, respondents displayed a wide range of understanding about long-term care insurance. A high level of detail about the product or the market contributed to the impression that the respondent was “savvy” about long-term care insurance. None of the Financiers had the highest rated level of knowledge, but almost one quarter of them were above the midpoint. About a quarter of the Providers ranked above the midpoint. Fifty-eight percent of Insurers were rated at this level.

	N/A		Uninformed ←————→ Savvy									
	1	5%	1	18%	2	18%	3	36%	4	23%	5	0%
<i>Financiers (22)</i>	1	5%	4	18%	4	18%	8	36%	5	23%	0	0%
<i>Providers (47)</i>	1	2%	6	13%	15	32%	13	28%	10	22%	2	4%
<i>Insurers (50)</i>	1	2%	0	0%	6	12%	14	28%	22	44%	7	14%
<b>Total (119)</b>	<b>3</b>	<b>3%</b>	<b>10</b>	<b>8%</b>	<b>25</b>	<b>21%</b>	<b>35</b>	<b>30%</b>	<b>37</b>	<b>31%</b>	<b>9</b>	<b>8%</b>

**Table 7: Responsibility for Slow Growth of Long-Term Care Insurance**

Interviewees were asked to explain the slow growth of the long-term care insurance market. For this question, comments tended to allocate responsibility to the insurance industry, public policy and consumers, or some combination thereof. The researcher rated responses along a continuum to indicate where it seemed the respondent placed more responsibility. Examples of industry responsibility are product design or marketing. Examples of public policy/consumer responsibility are denial of the risk of long-term care or coverage of long-term care by public programs.

Sixty percent or more of people in each of the groups gave explanations that leaned towards public policy or consumer responsibility. The Insurers were more apt to take responsibility than the other groups were to give it; 20% of Insurers compared to 15% of Providers and 9% of Financiers felt that the long-term care insurance industry was responsible for the slow growth of the product. However, within the responses that were below the midpoint (1 and 2), Providers tended more towards industry responsibility than did Insurers.



	LTCI Industry ←————→ Public Policy/Consumers											
	N/A		1		2		3		4		5	
<i>Financiers (22)</i>	3	14%	0	0%	2	9%	3	14%	7	32%	7	32%
<i>Providers (47)</i>	2	4%	4	9%	3	6%	10	21%	12	26%	16	34%
<i>Insurers (50)</i>	1	2%	2	4%	8	16%	8	16%	18	36%	13	26%
<b>Total (119)</b>	<b>6</b>	<b>5%</b>	<b>6</b>	<b>5%</b>	<b>13</b>	<b>11%</b>	<b>21</b>	<b>18%</b>	<b>37</b>	<b>31%</b>	<b>36</b>	<b>30%</b>

**Question 4: Among the three main players in long-term care – the Financiers, the Providers, and the Insurers – do you think there should be more communication and cooperation? How? What are the obstacles?**

Table 8: More Communication/Cooperation

Most interviewees responded positively to this question. Nearly 75% of each of the groups' responses cluster in the two highest rated categories, only the Financiers are a little lower at 72%. The average for all the interviews is 78%.

	N/A	No ←————→ Strong Yes										
		1		2		3		4		5		
<i>Financiers (22)</i>	1	5%	0	0%	0	0%	5	23%	6	27%	10	45%
<i>Providers (47)</i>	2	4%	0	0%	2	4%	5	11%	16	34%	22	47%
<i>Insurers (50)</i>	0	0%	1	2%	4	8%	7	14%	24	48%	14	28%
<b>Total (119)</b>	<b>3</b>	<b>3%</b>	<b>1</b>	<b>1%</b>	<b>6</b>	<b>5%</b>	<b>17</b>	<b>14%</b>	<b>46</b>	<b>39%</b>	<b>46</b>	<b>39%</b>

Table 9: Principal Source of Obstacles to Greater Communication

When discussing what they felt obstructed greater communication between these groups, sometimes one of the other groups was seen as the primary obstacle. However, most often more general explanations were offered (43%). The Providers considered themselves to be the least obstructive to communication (11%), while Financiers (21%) and then Providers (18%) were more frequently seen as responsible by all three groups. Financiers most often regarded themselves as a principal obstacle to greater communication (27%).

	<i>Financiers</i>		<i>Insurers</i>		<i>Providers</i>		<i>General</i>		<i>N/A</i>	
<i>Financiers (22)</i>	6	27%	1	5%	4	18%	10	45%	1	5%
<i>Providers(47)</i>	8	17%	7	15%	5	11%	25	53%	2	4%
<i>Insurers (50)</i>	11	22%	9	18%	12	24%	16	32%	2	4%
<b>Total (119)</b>	<b>25</b>	<b>21%</b>	<b>17</b>	<b>14%</b>	<b>21</b>	<b>18%</b>	<b>51</b>	<b>43%</b>	<b>5</b>	<b>4%</b>



## **Appendix D: Sample *LTC Bullets***

The Center for Long-Term Care Financing publishes *LTC Bullets*—a periodic online news service covering the latest information and trends in long-term care financing.

*LTC Bullets* are **free of charge**. They arrive as e-mail at your internet address, but they are also archived for your convenience on the Center's web site at [www.centerltc.org/](http://www.centerltc.org/)

To subscribe, e-mail your request to [info@centerltc.org/](mailto:info@centerltc.org/). We will add you immediately to the distribution list.

Should you ever wish to unsubscribe, simply reply to a *Bullet* or send a message to [info@centerltc.org](mailto:info@centerltc.org) indicating that desire and we will immediately delete your name from the distribution list.

Please direct any questions or requests regarding *LTC Bullets* to [info@centerltc.org](mailto:info@centerltc.org) or call the Center for Long-Term Care Financing at 425-467-6840.

Several examples of recent *LTC Bullets* follow. We omit the boilerplate contact information that follows every *Bullet* on each of the examples below, except the first.

### **LTC Bullet #162: Provider Nails It**

Wednesday January 5, 2000

Seattle—

Provider magazine is a well-known LTC trade journal published by the American Health Care Association. In its January 2000 issue, Editor-In-Chief Lynn Wagner hits the LTC-financing nail on the head. Her article—entitled “Meeting the Baby Boomer Challenge: How Will a Generation of 70 Million Elders Reshape and Redirect Long Term Care?”—gives a broad overview of the issue, but also hammers in the critical importance of private financing. Here's a sample:

“Long term care financing reform must be considered along with Social Security, Medicare, Medicaid, and tax policy changes, [former-Senator David] Durenberger says. All of these programs are tied to income security, and the role of social insurance must be defined so that the private long term care insurance market can take shape.... [P]rivate insurance will ultimately be the answer to the long term care financing dilemma. But it's impossible for this industry to mature until public programs stabilize and establish what their role will be over time in providing a safety net, [Durenberger] says. Once that is determined, private insurance plans can get a handle on risk and set rates accordingly.

“Baby boomers have not yet had to confront disastrous financial consequences when parents or grandparents need long term care, because ‘for 35 years the government has been anesthetizing the public to the risk of long term care,’ says Stephen Moses, president of the Center for Long-Term Care Financing, Seattle.

“Moses says the federal government needs to launch a major education campaign to inform this generation of its long term care risks and financing options. People should be encouraged to purchase private insurance by the time they are 55 or 60, when it’s still affordable, Moses says. He advocates requiring individuals to purchase such plans or offer their property as collateral against future long term care expenses financed by Medicare or Medicaid. This would shield people from the indignity of Medicaid reliance, provide incentive for individuals to purchase long term care insurance, and ensure that public programs would survive to serve the genuinely needy. Any debts would be collected post mortem from an individual’s estate.”

Our compliments to Senator Durenberger for his thoughtful analysis of the problem and to Editor Wagner for giving the Center for Long-Term Care Financing's "LTC Choice" proposal some well-read ink in Provider magazine.

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\*\*\* Forward freely; encourage subscribers! \*\*\*

\*\*\* Check out our web site at [www.centerltc.org](http://www.centerltc.org) \*\*\*

This e-mail is the latest installment of "LTC Bullets" - the Center for Long-Term Care Financing's periodic online news service covering the latest information and trends in long-term care financing. We welcome responses to the material presented.

\*\*\*Unsubscribe by simply using your reply button to send a request. Please put your e-mail address and name in the body of your message. Your e-mail address will be deleted from the Center's mailing list before our next mailing. We apologize for any inconvenience. We do not intend our "LTC Bullets" to reach anyone not interested in receiving them.\*\*\*

All past issues of LTC Bullets may be read on the Center's web site at [www.centerltc.org](http://www.centerltc.org)

Please direct any questions or requests to [info@centerltc.org](mailto:info@centerltc.org)

Thank you for your time and interest.

Center for Long-Term Care Financing  
425-467-6840 phone  
425-467-6829 fax  
[info@centerltc.org](mailto:info@centerltc.org)

## **LTC Bullet #164: LA Times Highlights Center's LTC Choice Plan**

Tuesday January 11, 2000

Seattle—

Last Sunday's (1/9/00) Los Angeles Times contained an op-ed piece by Betsy McCaughey Ross entitled "Bradley's Plan is a Loss for Seniors." Most of the article critiques presidential contender Bill Bradley's health care plan. The excerpt below, however, explains why the Center for Long-Term Care Financing's LTC Choice plan would be a more sensible approach. Ms. McCaughey Ross is a Senior Fellow at the Hudson Institute and former Lieutenant Governor of New York state.

"Currently, even middle-class seniors who own homes often are eligible for long-term care assistance under Medicaid. Liberal state rules allow them to deduct enormous medical costs from their income in order to qualify as 'medically needy.' Some people deplore Medicaid for the middle class as a gravy train; others consider it a well-deserved benefit for the elderly who have paid taxes and would be wiped out financially by nursing home bills. Either way, there's no question that Medicaid is important to many seniors. Two-thirds of nursing home residents are on it.

"Right now, the federal government and the states share the cost of all Medicaid programs, including health care for the poor and long-term care for the elderly. Bradley proposes a swap. Under his plan, the federal government assumes the total cost of enrolling low-income people in health plans, letting the states off the hook entirely. In return, the states would bear the total cost of long-term care on their own. 'The feds would love to get rid of long-term care, because it is the 800-pound gorilla of social problems,' explains Stephen A. Moses, president of the Center for Long-Term Care Financing, a senior advocacy group in Seattle....

"There is no question that the current system needs changing. Easy access to Medicaid assistance has anesthetized the public to cost and the need to save for old age. Because Medicaid generally will pay for nursing homes but not assisted living and other care, there is a perverse incentive for over-institutionalization. Too many people deteriorate in nursing homes who would do better in assisted living or adult day care at lower cost, if they could get the public to help pay.

"One answer might be to make Medicaid assistance a loan rather than an entitlement for middle-class seniors and, at the same time, allow them greater flexibility in choosing between a nursing home and another kind of care. In exchange for picking up the tab, Medicaid would be reimbursed later out of their estates. That could replenish Medicaid coffers to help people who are truly needy."

## **LTC Bullet #186: Who Needs LTC Insurance?**

Thursday May 4, 2000

Seattle—

The following excerpt from the Center for Long-Term Care Financing's "Myth of Unaffordability" report was published as a stand-alone article in the May 2000 issue of LTC News & Comment. For information on LTC News & Comment, go to [www.larsonltc.com/newsletter.html](http://www.larsonltc.com/newsletter.html) or contact Editor George Sherman at [gsherman@ris.net](mailto:gsherman@ris.net) or (719) 783-9558. Order a copy of the Center's "Myth of Unaffordability" report (\$34.95; free to media and lawmakers) by contacting Sarah Allen at [sarah@centerltc.org](mailto:sarah@centerltc.org) or 425-467-6840.

"Who Needs LTC Insurance?"

Senior advocates and financial planners often advise people not to buy long-term care insurance unless they possess certain minimum levels of income and assets. For example, according to the well-respected United Seniors Health Cooperative (USHC) of Washington, D.C.: "[E]ach member of your household should have at least \$30,000 in annual income and \$75,000 in assets, excluding your home and car, before thinking of buying long-term care insurance." Why these limits and not others either higher or lower? In the USHC's own words: "[I]f you have few assets, you do not need insurance because Medicaid can help absorb nursing home costs." In other words, their advice is: "If you can qualify for Medicaid nursing home benefits, then you don't need long-term care insurance." As we have shown in LTC News & Comment and elsewhere, however, virtually anyone can qualify for Medicaid nursing home benefits regardless of income or assets. Certainly, \$30,000 in income, \$75,000 in nonexempt assets, a \$250,000 home owned free and clear, and a brand new Lexus all combined present no significant obstacle to qualifying quickly for Medicaid without spending down for care.

It follows almost syllogistically, therefore, that no one needs long-term care insurance. That is precisely the logical conclusion that most consumers reach, although few of them identify the reasoning behind their decision so precisely. Most of them just listen to the nice long-term care insurance agent's presentation, offer courteous thanks, explain they "have to think it over," and usher the poor, befuddled salesperson out the door. This would not happen so often if consumers understood that long-term care insurance is not only, or even primarily, for asset protection. At least under current public policy, the main reason to buy long-term care insurance is to assure access to quality care at the appropriate level within the competitive private marketplace.

Eve Tahmincioglu, writing in Kiplinger's Personal Finance Magazine, sets a similarly high threshold for purchasing long-term care insurance: "[U]nless you're a couple with assets above \$100,000 (not including a house) or a single person with assets of more than \$40,000 or \$50,000, long-term-care insurance isn't for you." That standard would certainly leave out a lot of high-income, upwardly mobile, under-saving baby boomers who definitely ought to be purchasing long-term care insurance. What if you are a young couple who have not yet accumulated a lot of savings, but who want to take advantage of the low premiums available to people who purchase coverage at an earlier age? If you follow guidelines like these that are commonplace in the

financial planning literature, you will miss one of the best opportunities in a lifetime to acquire long-term care insurance.

The National Association of Insurance Commissioners (NAIC) proposes a guideline for the purchase of long-term care insurance that seems at first to make more sense than either of those above: “[Y]ou should not buy a policy if you can’t afford the premiums or cannot reasonably predict that you will be able to pay the premium for the rest of your life.” That sounds reasonable, but... What if you have loving adult children who are willing to pay the premiums for a long-term care insurance policy on your behalf so that they will have the satisfaction of knowing that you will be able to purchase quality long-term care and that their inheritance will remain intact? What if, like many seniors, you are cash poor, but house rich, and you could easily pay the premiums for a long-term care insurance policy by supplementing your income with the proceeds of a reverse annuity mortgage? What if your ability to pay the premiums indefinitely is dubious, but you would like to have long-term care insurance protection now and for as long as possible? The usual “rules of thumb” about who should buy long-term care insurance are usually wrong and often dangerous to the public’s well-being.

The correct answer to the question “Who Should Buy Long-Term Care Insurance?” is anyone who (1) correctly identifies the objective risk of needing long-term care, (2) understands the value of avoiding Medicaid dependency and paying privately in order to obtain quality care at the appropriate level, and (3) can find the income or resources to fund the premiums after giving this coverage an appropriate priority among competing spending alternatives. To recommend arbitrary income and asset levels below which people should not insure is unhelpful. Such recommendations would not happen nearly as often if the “experts” understood and fully appreciated the difference between and the complementary nature of long-term care insurance as both asset protection and, even more importantly, quality assurance.

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## **LTC Bullet #196: Shedding Tiers**

Wednesday June 14, 2000

Seattle—

The following article was originally published in the March 1992 issue of LTC News & Comment. Since then, some conditions of the long-term care marketplace have changed. For example, private-pay assisted living facilities have co-opted nursing homes' light care residents. Most factors covered in the article, however, have stayed the same or gotten worse. Medicare cut-backs and Medicaid's parsimony have driven one in ten nursing home beds into bankruptcy. Nevertheless, public expenditures for nursing home care have increased ten percent in the past ten years, while out-of-pocket expenditures are down ten percent. In the meantime, the public's perception of nursing home quality has plummeted while litigation against nursing homes has skyrocketed. In other words, everything is playing out just as predicted in the article. That's why we think its argument needs to be re-stated. The secret to universal access to top-quality long-term care at the most appropriate level is to maximize private financing and target public financing to the genuinely needy. The result will be better care for rich and poor alike.

## Shedding Tiers

by

Stephen Moses

President, Center for Long-Term Care Financing

You have heard the argument a hundred times. Private financing of health care leads inevitably to restricted access and unequal care. When some people pay their own way, while others depend on public assistance, two-tiered service is inescapable. The rich get preference; the poor get scorned. Alternatively, a national social health care program would provide universal access to equal care. So the advocates say.

At least in the nursing home industry, however, the truth is exactly the opposite. The only thing sustaining quality of care in nursing homes today is that a few people still pay privately. If we lose the last of the private payers to the connivances of Medicaid estate planners, the whole system falls apart. Here are the facts:

Seventy percent of all patients in America's nursing homes are covered by Medicaid. Medicaid pays nursing homes less than the cost of providing the care. To compensate, nursing homes charge private payers more than they would otherwise have to pay. This induces private payers to convert to Medicaid as soon as they possibly can. Medicaid estate planners make the conversion to welfare easy by offering Medicaid eligibility within 60 days regardless of income or assets. Their fees are often less than the cost of one month's privately financed care. Consequently, private pay census is falling precipitously in most nursing homes. This combination of more welfare patients and less revenue weighs like an anchor on quality of care.

Nationwide, the average profit earned by nursing homes is 1.2%. That is one-fourth of the return on money in a passbook savings account. Investment capital migrates toward its highest and best use. Therefore, under this myopic Medicaid monopsony, nursing home owners face an unenviable choice: get out of the business; accept inferior profits (by generally accepted standards); or cut corners on care. We should not be surprised when some facilities take the latter course.

Research shows that differentials in quality of care are not a problem in nursing homes with a significant proportion of private pay residents. Quality problems are most likely to occur when resident census approaches 100% Medicaid. As the prosperous clients of elder law attorneys occupy more and more Medicaid slots in the better nursing homes, the genuinely poor, who have no choice but public assistance, are pushed increasingly into Medicaid "mills." The horrific conditions documented recently by 20/20 in Texas Medicaid nursing homes are the logical outcome of this perverse system.

Public sector initiatives to mandate quality care through regulations, inspections, fines and penalties will never succeed. In a Medicaid-financed system, nurse's aides receive less for working in blood and feces at the nursing home than they can earn for handling sodas and fresh vegetables at the Taco Bell. Even if the government places armed guards in every nursing home in the country, quality will not improve while compensation lags.



One nursing home association executive told me that his group has an unwritten contract with the state quality control program: "they agree not to enforce the rules and we agree to accept inadequate reimbursement." It sounds like the communist worker's lament: "They pretend to pay us and we pretend to work."

Government micromanagement of the nursing home industry—including centralized planning, price controls, certificate of need programs, and regulation of quality and standards—is an extremely complex enterprise that often exacerbates the very problems it attempts to solve. Reality is much simpler. It does not matter whether you are John Q. Public or Uncle Sugar. You get what you pay for and that is all you get. Two-tiered care comes from too little private financing, not too much. If you want to shed tiers in nursing home care, rein in Medicaid with estate recoveries and give long-term care insurance a chance.

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## **LTC Bullet #208: Will Olmstead Help or Hurt Long-Term Care?**

Thursday August 3, 2000

Seattle—

A Supreme Court decision last year could undermine access to home and community-based long-term care services (HCBS) by impeding the sale of private long-term care insurance to pay for them. Ironically, the Court's objective was to expand HCBS, not to reduce such services. Here's the story:

In *Olmstead v. L.C.*, 119 S. Ct. 2176 (1999), the U.S. Supreme Court interpreted Title II of the Americans with Disabilities Act (ADA) to require states to serve people with disabilities in community settings rather than in institutions (such as nursing homes) when appropriate and reasonable. The Court made clear that enforcement of this requirement with respect to any individual must take into consideration the cost of providing care in the community, the resources available to a state, and the ability of the state to meet the needs of others with disabilities.

Nevertheless, in a letter to the Medicaid Directors and Governors of all states, the Health Care Financing Administration (HCFA) and the Office for Civil Rights of the Department of Health and Human Services (OCR) emphasized the potentially dramatic fiscal impact of the decision: "Although *Olmstead* involved two individuals with mental disabilities, the scope of the ADA is not limited only to such individuals, nor is the scope of *Olmstead* limited to Medicaid beneficiaries or to services financed by the Medicaid program. In addition, the requirement to provide services in the most integrated setting appropriate applies not only to persons already in institutional settings but to those being assessed for possible institutionalization."

Advocates for seniors and the disabled have hailed *Olmstead* as a great step forward for de-institutionalization and for home and community-based care. On the other hand, state Governors are afraid this mandate to provide expensive, non-institutional services to many more Medicaid

recipients will explode state budgets. Angst and conflict are growing rapidly over the Olmstead decision and its far-reaching ramifications. How can we make sense of what is going on?

Medicaid has a reputation for institutional bias. It pays heavily for nursing home care and very lightly for HCBS. Is this true because Governors, state legislatures, and Medicaid directors like nursing homes and dislike home care and assisted living? No! It is true because most people do not want to go to nursing homes—especially under-financed, heavily Medicaid-dependent nursing homes—and this fact helps to keep state Medicaid long-term care expenditures from spiraling out of control. Think of it as fiscal aversion therapy: the Medicaid program controls costs by providing mostly low-cost institutional care of questionable quality.

Consider these facts: for every person in a nursing home in America today, there are two or three more people living at home who have equal or greater disabilities, half of whom are bedbound, incontinent or both. If the Olmstead decision forces state Medicaid programs to pay for HCBS (which people want) instead of institutional care (which they don't want), three things will happen:

- (1) Many (or most) who are managing at home now thanks to the heroic efforts of their families to keep them out of nursing homes, will eagerly seek public financing of home care and assisted living. Those who are already financially eligible for Medicaid will come out of the "woodwork" to apply.
- (2) Those who need care and want HCBS, but are not yet financially eligible for public assistance, will seek out Medicaid estate planners, thus exploding this "cottage industry" of artificial impoverishment into a major sub-practice of law. When Medicaid planners can provide access to free or subsidized home care and assisted living, they will be in far greater demand than they were when they could only assure placement in a nursing home.
- (3) Finally, to the extent the public perceives that the Olmstead decision assures public financing of desirable long-term care services, people will be even less likely than now to plan early, save diligently, and insure fully for the future risk of long-term care. If one can get publicly financed home and community-based services after the insurable event occurs, why start paying premiums for private insurance thirty years in advance? Thus, the country's best hope for a reliable source of private financing for long-term care—private insurance—will die aborning.

So, here's the fallacy in the Court's good intentions and the advocates' high hopes. To the extent the Olmstead decision is successful in compelling state Medicaid programs to pay for HCBS "not only to persons already in institutional settings but to those being assessed for possible institutionalization," Medicaid long-term care eligibility, utilization and expenditures will explode. Medicaid estate planning will expand. Long-term care insurance will contract. The tension between demand for publicly financed HCBS and the taxpayers' willingness to pay for such services will increase. Skyrocketing Medicaid budgets will force lawmakers to restrict services to cut costs. Access and quality will suffer even more than before. The poor will bear the brunt of deficient care while the well-to-do will shoulder even higher out-of-pocket expenditures. And, in the end, even fewer people will have access to high-quality, home and community-based long-term care than now.

For a much more sensible public policy that will improve access to home and community-based services for all Americans—rich and poor alike, consult the Center for LTC Financing's white paper "LTC Choice: A Simple, Cost-Free Solution to the Long-Term Care Financing Puzzle." [Order a copy (\$24.95; free to media and lawmakers) by replying to this e-mail with your order or by contacting Sarah Allen at 425-467-6840 or [sarah@centerltc.org](mailto:sarah@centerltc.org)]

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## **LTC Bullet #211: Bill Gates on Medicaid?**

Tuesday August 15, 2000

Seattle—

Should Microsoft Chairman Bill Gates have Medicaid pay the bill if he ever needs long-term care? It makes sense "if you follow the arguments of elder law attorneys to their logical conclusions," says an Arkansas state official and critic of Medicaid planning. Here's the story:

The August 2000 issue of the trade journal *Contemporary Long-Term Care* contains an article entitled "The Booming Business of Elder Law" by New Hampshire nursing home administrator David Irwin.

Perhaps you've heard us say: "You can't sell apples (LTC insurance) on one side of the street when they're giving them away (Medicaid benefits) on the other." Irwin's article shows that Medicaid planners are still dispensing plenty of the free fruit that gums up the long-term care insurance market.

Easy money for Medicaid planners means tough sales for responsible financial planners and insurance agents. Want to see what you are up against? Here are some excerpts:

"Attorney David Ferber draws potential clients to the elder law seminars he holds in the basement auditorium of a Manchester, N.H., public library with newspaper ads promising that attendees will 'learn the startling truth about nursing homes and Medicaid.' Ferber claims that, 'Most people don't know that the law allows you to shelter your assets' from the cost of long term care."

...

"For Medicaid-planning purposes, he generally proposes an irrevocable trust to protect one's home from Medicaid's asset recovery process and an irrevocable family investment agreement, a sort of all-in-the-family annuity that shelters assets but still generates income. The sessions end with the participants filling out a 'feedback sheet' asking for basic information and offering a free hour of consultation."

...

"[Ferber is] part of a booming business. The American Bar Association didn't even recognize elder law as a specialty until 1992, and the National Academy of Elder Law Attorneys, the

specialty's professional association, began in 1987 with fewer than 15 members. Today, the organization has grown to 4,000 lawyers...."

...

"[A] common refrain from elder law attorneys is that their services benefit people of modest means.... Budish [a leading Medicaid planner and author of a best-selling 'how-to' book] says most clients of elder law attorneys have \$200,000 or \$300,000 in assets...." [Comment: only the top 10% or 15% of seniors have assets this large.]

...

"The companion argument is that Medicaid planning is really no different from estate planning or tax planning... 'what is the ethical difference between Americans using tax deductions to protect assets from Uncle Sam and the middle class using gifts or trusts to protect some assets from a nursing home?', asks Budish." [Comment: perhaps the difference is that tax planners are not reduced to welfare dependency and nursing home institutionalization while Medicaid planning victims are.]

...

"Not surprisingly, those charged with carrying out public policy see the situation quite differently. When asked about asset preservation strategies, many Medicaid administrators go right to the statement of public policy contained in the Medicaid law, which states that the program is intended for 'aged, blind or disabled individuals, whose income and resources are insufficient to meet the costs of necessary medical services.'"

...

"Roger Auerbach, who administers the Medicaid long term care program in Oregon, has little sympathy for the arguments made by the asset preservers. 'When an elder law attorney says he's so proud that he was able to get the taxpayers to pay, I don't consider that to be in the spirit of the law and the philosophy of the program we administer...[which is] to serve the poor and the frail' not those who have made themselves poor by visiting a lawyer."

...

"Paul Offner, who runs Medicaid in the District of Columbia, is even harsher, calling attorneys' asset preservation work 'a relatively amoral activity' and characterizing their practices as 'chicanery.'"

...

"Dahlgren [Richard Dahlgren, an attorney for the Arkansas Department of Human Services] thinks the elder law attorneys perform a disservice when they turn those who would otherwise pay for their care into Medicaid recipients. 'If you follow the arguments of elder law attorneys to their logical conclusions, Sam Walton and Bill Gates should qualify for Medicaid,' he says."

With Medicaid planners putting so many people on Medicaid, who will buy LTC insurance and how will America provide quality care for the needy? There is a better way. Check out the Center for Long-Term Care Financing's white papers: "LTC Choice: A Simple, Cost-Free Solution to the Long-Term Care Financing Puzzle" and "The Myth of Unaffordability:

How Most Americans Should, Could and Would Buy Private Long-Term Care Insurance." [LTC Choice (\$24.95) and Myth of Unaffordability (\$34.95) can be ordered by contacting Sarah Allen at 425-467-6840 or [sarah@centerltc.org](mailto:sarah@centerltc.org). Both reports are free to media and lawmakers.]

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## **LTC Bullet #214: Smart ALEC on LTC Policy**

Wednesday September 13, 2000

Seattle—

Policy-makers and long-term care advocates: Check out the recent policy guide, "Senior Century: Senior's Needs and Long-Term Care" by Merrill Matthews, Ph.D. of the American Legislative Exchange Council (in "The State Factor," Volume 26, Number 1, June 2000). See below for how to obtain a copy.

Matthews provides an overview of pressing senior issues from changes in the life span to changes in Medicare coverage and urges new strategies that will enhance private sector solutions. Specifically, he recommends tax credits for long-term care insurance, development of programs to create and access private assets for long-term care expenses, and tightening Medicaid eligibility. Do any of these ideas sound familiar? The Center for Long-Term Care Financing's own LTC Choice proposal outlines a program that would offer loans to the middle class to access the equity in their estates for long-term care, limit Medicaid eligibility to the truly needy, and thereby create real incentives to insure against the risk of long-term care. Matthews cites the Center in his analysis and draws on the LTC Choice proposal for his recommendations. With this kind of convergence on the cause and solution to meeting seniors' needs for long-term care, progress can't be far behind!

The American Legislative Exchange Council (ALEC) is a bipartisan association of state legislators interested in promoting free markets, limited government, federalism, and individual liberty. Last year ALEC members introduced over 2,200 pieces of free-market legislation and over 320 of these became law. This policy guide includes a sample resolution on the promotion of long-term care insurance for ALEC members and other policy makers to adopt in their states. To order copies of "Senior Century," contact Joe in Publications at (202) 466-3800, ext. 271. For more information on ALEC's aging policy, contact Karen Miller, Director of the Health and Human Services Task Force, ALEC, 910 17th St. NW, Fifth Floor, Washington, D.C. 20006, Tel. (202) 466-3800.

Here's the Resolution in full:

**\*Resolution on the Promotion of Long-Term Care Insurance for Individuals\***

Whereas, the baby boom generation is beginning to retire, and funding for Social Security and Medicare will thus put a strain on the financial resources of younger Americans; and

Whereas, Medicaid was designed as a program for the poor, but in many States Medicaid is

being used for middle income elderly people to fund long-term care expenses; and

Whereas, in the coming decade, people over 65 will represent up to 20 percent or more of the population, and the proportion of the population composed of individuals who are over 85, who are most likely to be in need of long-term care, may double or triple; and

Whereas, with nursing home care now costing \$40,000 to \$50,000 on average per year, long-term care expenses can have a catastrophic effect on families, wiping out a lifetime of savings before a spouse, parent or grandparent becomes eligible for Medicaid; and

Whereas, many people are unaware that most long-term care costs are not covered by Medicare and that Medicaid covers long-term care only after the person's assets have been exhausted; and

Whereas, widespread use of private long-term care insurance has the potential to protect families from the catastrophic costs of long-term care services while, at the same time, easing the burden on Medicaid as the baby boom generation ages; and

Whereas, the Federal Government has endorsed the concept of private long-term care insurance by establishing Federal tax rules for tax-qualified policies in the Health Insurance Portability and Accountability Act of 1996; and

Whereas, the Federal Government has ensured the availability of quality long-term care insurance products and sales practices by adopting strict consumer protections in the Health Insurance Portability and Accountability Act of 1996.

Now, Therefore Be It Resolved that {State} should take all appropriate steps to inform the public about the financial risks posed by rapidly increasing long-term care costs and about the need for families to plan for their long-term care needs; and

Be it Further Resolved that {State} should take all appropriate steps to inform the public that Medicare does not cover most long-term care costs and that Medicaid covers long-term care costs only when the beneficiary has exhausted his or her assets; and

Be it Further Resolved that {State} will encourage the Federal Government to determine to what extent tax rules may discriminate against long-term care insurance policies, and to look for ways to remove such barriers and implement new incentives for the purchase of long-term care insurance.

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## **Biographical Profiles**