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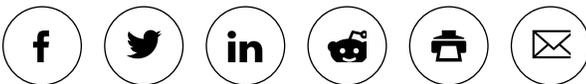


June 7, 2021

# LTC financing: Be careful what you wish for



[Stephen A. Moses](#)



There's an old saying: "Be careful what you wish for, because you may get it." That admonition applies to long-term care public policy options under serious consideration today.

The COVID crisis devastated senior living and care facilities of all kinds, but it focused operators, policymakers, analysts and the public on the need to fix what ails long-term care. Both the problem and the most popular proposed solutions have come into stark focus and widespread agreement.

The problems, experts say, are that more people are getting older; they need help with activities of daily living; families are overwhelmed trying to provide such care; Medicare is no help, and Medicaid requires impoverishment; and private long-term care insurance failed because it's too expensive and complicated. These problems are getting worse with every passing day.

So, many experts agree, what we need to do is fix these problems with the same approach we brought to senior poverty (Social Security) and healthcare (Medicare). That is, we should introduce a payroll-funded, mandatory social insurance program for long-term care. Scholars have proposed many variations on that theme, but two are in the news right now.

## Two approaches in the news

One "front-end" approach, already [underway in Washington state](#), is to impose a 0.58% tax on

employee wages and pay vested beneficiaries a maximum lifetime benefit of \$36,500 when they need assistance with three or more ADLs. Another “back-end” or catastrophic approach, the WISH ([Well-Being Insurance for Seniors to Be at Home](#)) Act, would impose a federal payroll tax of 0.5% (half from employees, and half from employers) and give qualified, vested beneficiaries \$3,600 per month after a waiting period in which they pay their own costs.

Both of these approaches are complicated and extremely difficult to administer, requiring new, large bureaucracies to collect taxes, invest reserves, determine eligibility, manage care and maintain quality. But put aside those practical challenges for now and consider the proposals’ deficiencies in principle.

Both approaches are compulsory. As with Social Security and Medicare, citizens have no choice but to participate. The [Washington Cares Fund](#) allows a time-limited opt out for private long-term care insurance owners but no option to skip the program altogether. Both plans move another step toward government dependency and away from personal freedom and responsibility.

Both approaches tax payrolls, leaving less private capital in the economy to fund productive measures and enterprises aimed at improving long-term care. Is there any evidence that government spends money more wisely than the private sector?

Both approaches assume that private long-term care insurers will rush in with products to “wrap around” the new programs’ front-end or back-end benefits. But this will not happen because neither approach addresses Medicaid’s loose and elastic long-term care eligibility rules, which will continue to crowd out private insurance. Both assume Medicaid expenditures will decline as the new programs’ expenditures increase. But this will not happen. The public will continue to ignore private long-term care insurance options and rely on Medicaid by default, leaving private insurers no commercial leverage.

## **No serious consideration until now**

Advocates for neither approach have explained why long-term care has all the problems they agree it has. By ignoring the history of government financing and regulation that created the existing system, they turn automatically to more government financing and regulation for a “solution” that really is just more of what caused the problems in the first place.

Until recently, there was little reason to worry that approaches to long-term care reform such as those would garner any traction. Their progenitors, Social Security and Medicare, are operating in the red already, with insolvent “trust funds.” Baby boomers start turning 85 when they’ll need the most health and long-term care, in 2031, just about the same time the compulsory social insurance programs we already have are required to cut benefits. No one seriously would consider adding more such programs ... until now.

What's changed? Nowadays, neither the public nor their politicians worry about throwing money at harebrained schemes. According to the National Debt Clock, federal spending this year is \$7.1 trillion, but tax collections are less than half that, \$3.5 trillion. The rest of the federal budget comes from Treasury borrowing and the Federal Reserve printing the difference. Whether you justify such policy with [Modern Monetary Theory](#) or just like the idea of getting something for nothing, such policy could lead inexorably to passage of risky front-end or back-bend plans to "fix" long-term care.

## What this means for senior living

What does this mean for senior living operators? If social insurance plans such as those actually were to pass and take effect, you may find yourselves with even fewer private payers and more residents dependent either on Medicaid or one of these new, equally poorly funded government programs.

You'll be tempted to follow nursing homes down the primrose path of accepting inadequate government reimbursements as better than having an empty unit. Because the federal government operates at such a huge deficit and the Fed has driven the money supply into the stratosphere, too much money chasing too few goods will ignite inflation. Neither the public nor its new funding programs will be able to afford quality senior care and services, and you'll be unable to afford to provide them.

Long-term care in America is on a slippery slope. It is unwise to assume it can't get worse or that doing more of the same will fix it. We need to explain why long-term care is such a mess now and use that insight to plot a better course. That's what I've done in "[Medicaid and Long-Term Care.](#)" Read it and let me know what you think.

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