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Difficult choices ahead for health care policy

AARP report finds that only 8 percent of adults know how expensive long-term care is.

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If we have any luck, we'll live a long time. But how will we pay for health care in our old age?

The single largest payer of long-term care (LTC) is government, which foots 65 percent of the bill. Medicaid, the state-federal program, pays for 42 percent of it alone, meaning that states will face even more financial challenges as baby boomers age.

As you might expect, AARP (http://www.aarp.org) has taken notice. Its publication, "The Costs of Long-Term Care," reports on a survey of more than 1,400 adults aged 45 and older. It found that only 8 percent—one in twelve—could identify the national average cost of a month's stay in a nursing home, which is $6,266. That's even after they were given a very generous margin of error of plus or minus 20 percent. (They also thought, incorrectly, that Medicare pays for long-term nursing home stays.)

One implication of the finding, AARP notes, is that people who do not pay attention to the cost of care are more likely to be unprepared for it. That's obvious from some other numbers: only one dollar out of three spent on LTC comes from private funds or privately purchased insurance.

Insurance can alleviate some of the financial burden, but with it's expensive. Some critics, however, say public programs discourage private insurance and cost-consciousness. If citizens think government programs will bail them out, they have little incentive to pay attention to the cost of care or to plan for it.

Lawmakers, on the other hand, will have plenty of incentives. Every tax dollar spent on long-term care is money that can't be spent on schools, roads or other projects. It can't be refunded to taxpayers, either.

To cope with rising costs, states have tried to do things on the cheap and contain costs through Certificate of Need requirements and other programs. They have also sought federal waivers to pursue various experiments within Medicaid. One experiment is using home and community-based health care services (HCBS).

But Stephen Moses, president of the Center for Long-Term Care Reform (http://www.centerltc.com) argues that this move has created demand for Medicaid. Most people will find Medicaid-financed, home-based care more attractive than a Medicaid-financed nursing home stay, so more will seek out public aid than would have been the case. So much for saving money.

Moses has called for governments to make it harder to practice "Medicaid planning," or sheltering one's assets from the Medicaid rules that call for individuals to spend those assets before qualifying for public aid.

Earlier this year, Congress took steps to combat Medicaid planning. But will states cooperate? They already vary in the extent to which they use asset recovery, and most could take more steps to encourage the use of private insurance and reverse mortgages as private alternatives to public financing.

Moses, whose group receives some funding from insurance companies, says current law and Medicaid-scheming lawyers discourage the purchase of private LTC insurance. Right now, it pays for only 9 percent of all LTC costs.

Critics of Moses, such as the Kaiser Family Foundation, say "there is little research evidence to support the notion that widespread transfer of assets to gain Medicaid eligibility is occurring." They do agree with him that incentives for private insurance can be part of the solution.

Under the new federal law, states can use long-term care insurance partnerships to encourage insurance coverage. Seniors who purchase LTC insurance can shelter an amount equal to their coverage from Medicaid spend-down rules. Even under this arrangement, governments save money, and seniors benefit from paying their own way rather than depending on a public bureaucracy. These partnerships were proposed by the Robert Wood Johnson Foundation (http://www.rwjf.org) in the early 1980s.

We face two major options in health care policy: expanding government-run and financed health care, or encouraging the development of the consumer-driven health care model, which is still new. Perhaps in a world of health savings accounts, enough people will have stored away sufficient money to take the pressure off public budgets. I'd like to think so. But until then, there's going to be some difficult choices ahead.