

The LIFE Plan Considerations for Long Term Care Financing Reform

Issue

Unless comprehensive long term care financing reforms are enacted in the next few years, fiscal and demographic pressures will push the nation beyond its capacity to meet the future long term care needs and its citizens will have little or no control over where and how their care needs will be provided.

AHCA/NCAL Proposal

The American Health Care Association (AHCA) and the National Center for Assisted Living (NCAL) support a national, public/private solution to reforming our nation's long term care financing system. Such a system would allow the nation and its citizens to move beyond today's "pay-as-you-go" financing system to one in which government policy encourages, supports and protects individuals who choose to plan for their own future long term care needs through long term care insurance or other financial means.

Background

Nationally there is a growing recognition that long term care remains this nation's greatest unfunded liability. Current government policies do not encourage individual planning and are institutionally biased. Those who need government assistance have little choice but to receive care in a nursing home when most would prefer to be cared for at home or in other community settings.

Today, two out of three nursing home residents depend on a patchwork of financially frail, federal/state funded Medicaid programs to pay for their care. Most policymakers understand that demographic pressures, including the imminent retirement of 77 million aging baby boomers, increased longevity due to medical advances and declining family size will push Medicaid beyond its capacity to provide care. It's clear that without reform, government will be forced to respond to the growing care need by increasing taxes; reducing public spending on other programs; cutting Medicaid benefits, eligibility or provider payments of some combination of these. Such options, under closer scrutiny, are untenable and unacceptable.

AHCA and NCAL, with the help of a sophisticated microsimulation model developed by the health policy experts at Abt Associates, continue to analyze tax incentive approaches that can best help individuals purchase and maintain a long term care insurance policy. In this public/private approach, a phased application of a targeted refundable tax credit has been found to be well suited to easing the growing dependence on Medicaid by providing progressive premium support to low-to-moderate income individuals – those who, without insurance, are most likely to become dependent on Medicaid. The full or partial premium support for long term care insurance not only provides a means for millions of Americans to take responsibility for and to control their own care, but it creates a "financial safety net" to help individuals maintain their policies should income drop because of retirement, disability or loss of employment.

Expectations are that the refundable tax credit would be available for policies providing comprehensive coverage of 5-years or longer. Comprehensive coverage would include home and community-based care benefits, assisted living and nursing home care. Initially, the refundable tax credit would be available to eligible individuals beginning at age 65 who purchased a long term care insurance policy prior to age 65.

Over time, the refundable tax credit could be available to younger individuals to encourage earlier purchases of long term care insurance.

Successful expansion of long term care coverage and reduced dependence on Medicaid, under this approach, would lay the foundation for coordinating long term care for the aged and disabled at the federal level. This would eliminate the cost shifting and confusion that currently prevails between federal and state governments and would allow for better coordination of care and cost efficiencies. Government's important role of providing a care "safety-net" would be maintained.

The LIFE plan is good public policy. Its tax provisions provide strong incentive and economic support for individuals, at all income levels, to take responsibility for their own long term care planning. The LIFE Plan offers individuals the freedom to choose from a range of insurance benefits and will allow them to adjust their choices as their needs or preferences change.

Action

- Complete LIFE Plan model cost analysis research
- Continue educating policymakers at all levels about the critical need to reform our nation's long term care financing system and about the viability of the LIFE Plan "refundable tax credit" as part of a comprehensive reform effort.
- Advance and support legislative policy proposals that fit the LIFE plan model.

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