ISSUE BRIEF
American Health Care Association

Utilizing Tax Incentives to Promote Personal Responsibility and Choice in Long Term care Planning

Issue

This nation's current system for financing long term care consists of an unstable patchwork of federal and state programs with little private insurance participation and few meaningful incentives for individuals to take personal responsibility for their own long term care planning.

Unless this nation adopts policies that ensure smarter and more cost effective use of public and private resources, the current system will be stretched beyond its capacity to provide for the long term care needs of its rapidly aging population.

AHCA Proposal

The American Health Care Association (AHCA) and the National Center for Assisted Living (NCAL) support creation of a long term care financing system that moves beyond today's "pay-as-you-go" proposition – Medicaid – to one where individuals are provided incentives to save for their own care needs by purchasing private insurance. Such incentives include an "above-the-line" deduction for long term care insurance as offered in "*The Long Term Care and Retirement Security Act of 2003"* (H.R. 2096 and S. 1335). Additionally, *"The Long Term Care Insurance Partnership Program Act of 2004"* (H.R. 1406 and S. 2077) would promote the use of long term care insurance by allowing additional states to enter into long term care insurance partnerships under the Medicaid program.

Background

Today, two out of three nursing home residents depend on a financially fragile patchwork of federal and state Medicaid programs to pay for their long term care. Demographic pressures, increased longevity due to medical advances, declining family size and a decline in the ratio of workers to retirees will soon push Medicaid beyond its capacity to finance the provision of care.

Research by Abt Associates finds that if no changes are made to current laws, the burden of Medicaid long term care spending, as a percent of gross domestic product (GDP), will *triple* (from 0.45% of GDP to 1.45% of GDP) by the year 2050. This will require sizable increases in tax rates, reductions in public spending on other programs, reductions in Medicaid benefits and eligibility, payment to providers, or all four. Such options are untenable and unacceptable.

While no available policy option can reduce the growing need for long term care services and public spending, relative to current law, there are decisions that can be made on how available public and private resources can be more effectively spent. Increasingly, proposals that encourage individuals to purchase private long term care insurance are gaining momentum. Insurance promotes consumer choice, allowing individuals to maintain control over how and where their long term care services are provided. It also facilitates marketplace competition that will work to enhance quality and control costs.

Congress is exploring legislation that will provide an "above-the-line" tax deduction of the premium costs for long term care insurance as contained in H.R. 2096 & S. 1335. Research shows that this deduction will dramatically encourage the purchase of private insurance and reduce government spending on Medicaid long term care services. The administration fully supports this legislation.

The administration and a growing number of House and Senate members also support expansion of state long term care insurance partnership programs such at those in California, Connecticut, Indiana and New York.   S. 2077 and H.R. 1408 would encourage long term care planning, protect consumer choice and allow for asset protection for individuals who purchase state partnership policies. For states, the benefit is reduced dependence on Medicaid paid long term care.

With the average cost of nursing home care now fast approaching $60,000 per year, these legislative proposals provide the tools individuals need to take control of their long term care planning and they can serve as key elements of a more comprehensive long term care financing reform policy that this country will need in the first half of this century as 77 million baby boomers move into retirement and their need for long term care services grows beyond Medicaid's ability to pay for it.

Status

AHCA and NCAL are actively educating members of Congress and the Administration about the benefits of enacting an "above-the-line" tax deduction and expansion across all states of the long term care insurance partnership program.

Action

Continue to build co-sponsorship and support enactment of H.R. 2096 & S. 1335, legislation that would provide individuals with an "above-the-line" deduction for long term care insurance premiums and of H.R. 1406 and S. 2077 to allow for expansion of the long term care insurance partnership program.

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