

# **Testimony on Health and Long-Term Care: Growing Economic Crises and Trends** NY State Health and Insurance Departments, Nov. 2, 2007 By: Alfred C. Clapp, Jr., President, Financial Strategies and Services (FSS) Corp.

As we consider the growing health and long-term care (LTC) crises, our economy is slowing down. The following insights suggest how health and LTC care should be combined in order to meet the expanded needs of our older population and address the serious overlapping issues reviewed below:

- 1) The Federal General Accountability Office (GAO) has developed a simulated study of federal Medicare and Medicaid health expenditures through about 2050 that indicates the increasing fiscal and health care challenges the U.S. will face with its aging population. Today, federal health and LTC expenditures for Medicare and Medicaid account for 20% of all federal spending. U.S. total health costs equal 20% of the gross domestic product. Assuming no major health program cutbacks, these expenditures will increase greatly. Inadequate retirement savings and Social Security income will mean that only a small percent of seniors will be able to retire – let alone afford LTC expenditure. Income and estate taxes probably will have to be increased to fund entitlement programs for seniors to survive longer lives. The real economic costs associated with privately paid LTC services also will increase. With future generations smaller than Baby Boomers, health/LTC government funding and individual and family resources also will often be inadequate to provide a safety net for most seniors with longer retirement lives, health, and LTC issues.**
- 2) Health care is the Nation's top expenditure in 2006. Current fiscal health/LTC costs are unsustainable. The "status quo" is not an option because demographic trends pose extreme challenges, as the over 65 population doubles in 15 years and grows from about 10% to over 20%, at the same time as the labor force will decline.**

- 3) Stephen Berger, who was the Chairman of the NY State 2006-2007 Commission stated in a *Crain's* sponsored presentation that the health and nursing home reimbursement system is bankrupt. This Commission surveyed the financial viability of hospitals and nursing homes. Based on its NY area evaluation of these facilities, the Commission recommended that a number of these institutions were not sufficiently profitable, because they were not serving enough residents and therefore should be closed. Of course, closing hospitals and even nursing homes is subject to political pressures. Thus, the combined overcapacity, inefficiency today overlooked the fact that the Baby Boomer doubles the number of seniors over age 65 and quadruples those over age 80 who are more likely to require long-term care services. In NY alone 65 nursing homes have been closed. However, as nursing homes have been closed, we will not have the capacity for the growth of Baby Boomers and their demands projected in the coming decades.**
  
- 4) NY State has the richest Medicaid program, including offering almost the only home LTC program with about 50,000 individuals in the NY City area receiving Medicaid home care mostly from licensed home care agencies.**
  
- 5) The NY State budget in the past fiscal year reduced Medicaid expenses by about \$1 billion by prosecuting Medicaid fraud cases. Now the current year's budget depends on \$3 billion in Medicaid further prosecutions just to balance the budget. This budget may be viewed as a dubious budget goal.**

- 6) The cost per individual requiring LTC services is significantly greater than much lower health costs. Assuming 40% of services were Medicaid government paid, the costs in the NY City area may be projected to up to \$1 million dollars per person for 2 ½ years of coverage as summarized below:

<b>LTC Service Categories:</b>				
<b>NY area home (2 shifts), nursing home or assisted living facility (ALF)</b>				
<b>NYC Cost* (per annum)</b> <small>*Based on an assumed 5 % modest compound inflation rate.</small>	<b>2007</b>	<b>2022</b>	<b>2037</b>	<b>For 2-1/2 years in 2037</b>
<b>Home/Nursing Home</b>	<b>\$120,000</b>	<b>\$240,000</b>	<b>\$480,000</b>	<b>\$1.2 million</b>
<b>ALF (Some care)</b>	<b>\$60,000</b>	<b>\$120,000</b>	<b>\$240,000</b>	<b>\$600,000</b>

- LTC costs more than lifetime health for 40% of seniors for 2 ½ years.
  - Most seniors not afford to fund LTC without buying LTCI at a young age.
  - Estimating we have 5 million seniors requiring LTC services in NY (including disabled younger persons), the costs may amount to \$60 billion annually.
- 7) The shortage of different health specialists, i.e., geriatric doctors, nurses, is worse for caregivers. Caregivers are not projected to grow at all despite the growing need of elders with longer lives. Caregivers also are viewed as a Social Security immigration liability, and may not receive immigration working approval.
- 8) Care for seniors may be accommodated by cluster care, health and care monitoring, international retirement, and hopefully building additional senior housing that may be affordable assuming housing is financed by government as has been curtailed.

- 9) **Long Term Care Insurance (LTCI) many policies do not offer flexible enough coverage, including most NY Partnership policies. Over 20 companies no longer sell LTCI. LTCI policies are mostly based on poor reimbursement models that do not consider the future caregiver shortage or require assisted living facilities to be state licensed, which most are not.**
- 10) **As licensed home care agencies usually will not license certified caregivers as permitted in most LTCI policies and the state is not adequately training and licensing more professional caregivers, the better paid higher quality caregivers are not available. Most NY Partnership policies require licensed agency home caregivers.**
- 11) **Medicare limits: physical therapy, medications unless generics, probably does not offer higher priced special drugs, and most dental services.**
- 12) **Medicaid health quality is poor and not accepted by many private doctors as its reimbursement rates for nursing home and health services are too low.**
- 13) **Just as most seniors fail to develop long-term care plans for aging, the government is also failing to plan ahead to cope with the aging population health LTC longevity impact.**
- 14) **LTC is a consequence of health, but only covered privately or by Medicaid in nursing homes or in NYC area for home care.**
- 15) **More nursing homes may lose money and not accept lower paying Medicaid patients.**
- 16) **The Deficit Reduction Act (DRA) has been described as the nursing home Bankruptcy act, curtailed elder attorney Medicaid planning, and extended the waiting time to be eligible for Medicaid to 5 years after a patient not eligible for Medicaid applies to be in a nursing home. Home care may be accessed as long as an applicant meets the impoverishment requirements.**

- 17) NY Partnership LTCI policies have become a more confusing coverage and thus lost their original total asset leadership claim to fame. The NY Partnership that mostly offers a nursing home asset (not income) protection strategy is confusing, but a good nursing home strategy especially after the DRA. However, regular policies are often better with Partnership policies usually not permitting a private caregiver. Thus promoting a NY Partnership policy is questionable unless equal emphasis is placed on regular LTCI policies. The dollar for dollar Partnership policies that are being adopted throughout the U.S. offers limited asset protection to the extent benefits are used.**
- 18) LTCI is a small product with only about eight million policies sold in the U.S., the insurance industry is more defensive, less progressive, and not adequately improving LTCI policies. There have been good features added to LTCI policies in the past decade including: the valuable costly cash benefit policies. Only a few policies permit reimbursing private care without a daily licensed agency gatekeeper check up. Monthly (not daily) benefits are offered that are better for home care economic arrangements. A survivorship life rider will waive premium payment for a surviving couple after couples pay premiums on two policies for 10 years. A shared care couple rider appears valuable to extend the length of time for one person requiring a longer benefit, but does not permit another spouse not on benefit to share services from a caregiver.**
- 19) The attempt to pass the Compact law is not economically justified. Mostly it was designed by elder attorneys to avoid the draconian DRA law and to liberalize Medicaid planning strategies. Abbreviating LTCI premium funding is discouraged as premiums are too costly. The insurance industry has so far only started to add LTCI riders to hybrid annuities permitted by the Pension Protection Act. Unfortunately, LTCI has not been improved by integrating health and LTC coverage.**
- 20) Elder abuse issues appear to be growing without legal enforcement. Governments need to address/maintain minimally acceptable standards.**
- 21) I strongly recommend NY health, insurance, and aging departments develop a strategic long-term plan to address the economic and political uncertainty and lack of direction to cope with the aging crises we face.**



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**is a recognized New York area financial advisor, serving the special financial planning and long-term care needs of seniors. After a career as a financial executive for Fortune 500 companies and as a chief financial officer for medium size businesses, Al in the last 15 years has built his business as an independent advisor and insurance specialist. His company's success is built on professional contacts and expertise as a financial guru and his advocacy for seniors and the issue of health and long-term care.**

**As president of FSS, Al has helped hundreds of seniors and their families plan practical, affordable approaches to long-term care planning and long-term care insurance. Al has written two monographs, over eight articles/chapters, testifying on health long-term care to NY State Health Department, quoted regularly by leading publications, and organized, moderated, and spoken a few times a year at programs and conferences with leading speakers. As an active member of leading organizations and associations including Financial Executives International, NY City, Westchester Estate Planning Council, Health Advocates for Older People, Medicare Rights Center, NY Business Group on Health, World Wide Employee Benefits, and Planned Giving Group of NY, Al has contributed through his skills as a fundraiser, public speaker, and respected authority on the topics of health and long-term care.**