The Heritage Foundation Backgrounder

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MAKING LONG-TERM HEALTH CARE MORE AFFORDABLE

INTRODUCTION

The debacle over catastrophic health care last year should teach lawmakers several painful lessons. One of the most important is that the overriding concern for America's elderly is the potentially crippling cost of long-term nursing home care. The extensive new physician and drug benefits in the Medicare Catastrophic Act of 1988 did nothing to address this worry. That is in great part what triggered the clamor that last year repealed the law.

Lawmakers now in Washington for the new session of Congress will have to confront this pent-up demand for action on long-term health care. Some members of Congress already have proposed legislation on this, and the Bush Administration is expected to submit its own package of laws later in the year.

Seeking Solutions. Two congressionally-mandated commissions, meanwhile, are developing proposals for major health care reforms, including long-term care. One is the U.S. Bipartisan Commission on Comprehensive Health Care, also named the Pepper Commission after its sponsor and first chairman, the late Florida Democrat Claude Pepper. It is now chaired by Senator Jay Rockefeller, the West Virginia Democrat; its report to Congress is due March 1. The other commission is the Advisory Council on Social Security, which the Secretary of Health and Human Services (HHS) is required to convene every four years to examine the financing and structure of Social Security and related programs, and to recommend improvements. Sometimes referred to as the "Steelman Commission" after its chairman, Deborah L. Steelman, the council is required to submit its report to HHS Secretary Louis Sullivan by January 1, 1991, though it is expected to report sooner.

Note: Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

How Congress will respond to these commission reports and legislative proposals is unclear. Lawmakers were stung by last year's angry and widespread senior citizen revolt against the 1988 catastrophic legislation, less than a year after it took effect. Many members of Congress, surprised and embittered by that experience, have little enthusiasm for new health care legislation to help the elderly. But other members argue that passing some form of long-term care law is necessary, and that it would repair the political damage Congress suffered last year. They recognize that one of the major reasons retirees objected to the 1988 Act was that it almost entirely failed to deal with the costs of long-term care. These lawmakers also note that long-term care is by no means an issue confined to the elderly. It is increasingly a concern of working Americans as well, many of whom have parents or other older relatives who now require, or may soon need, long-term care services.

Preparing for "Baby Boom" Retirees. These lawmakers are correct in urging Congress to act this year. Because of reduced birth rates and increased life expectancies, the elderly now constitute 12.6 percent of the total U.S. population, greater than at any time in the past. In 20 years, as the "baby boom" generation begins to retire, Americans over age 65 are expected to comprise 13.9 percent of the population, and by 2030 they could account for 21.8 percent.[1] This growing elderly population will mean heavy demand for long-term care services. As such, it would be wise for Congress to enact reforms to make those services more affordable and accessible now, before the rising pressure for action forces hasty, ill-conceived programs.

In debating proposed long-term care legislation Congress should remember two very important points:

1) **Government already makes an enormous contribution** to the costs of nursing care, with federal and state governments spending a staggering $25 billion this year on such assistance, chiefly through the means-tested Medicaid program.

2) **While reforms in Medicaid are needed** to use existing funds more efficiently, those most worried about long-term care costs are not the poor, but middle-class Americans who fear that their hard-earned savings will be exhausted by an extended stay in an institution. This suggests steps by Congress to promote wider insurance against such potential losses.

The task facing Congress is not to create a huge new federal program taxing workers more heavily to subsidize middle class retirees. Instead it is to reshape existing government programs to target them to those in need and to finance the most appropriate services, while encouraging middle-class Americans to take the same prudent actions to protect their assets from nurs-

1 Population projections from U.S. Department of Commerce, Bureau of the Census. See *Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means* (Committee on Ways and Means, U.S. House of Representatives) 1989 edition, March 15, 1989, p. 1071.

ing home costs that they take to protect themselves from other financial catastrophes.

Specifically, Congress should:

♦ ♦ Restructure existing public assistance programs so that they better address the long-term care needs of the elderly poor.

♦ ♦ Encourage working Americans and their spouses, through tax incentives and other steps, to buy private long-term care insurance while they are young and premiums are low, to protect themselves when they retire.

♦ ♦ Provide tax relief to help Americans meet the cost of caring for their elderly relatives.

♦ ♦ Change existing policies and regulations to enable today's middle- and upper-income retirees to obtain more affordable long-term care insurance, and to empower them to use existing assets more effectively to pay for long-term care services.

The demand for protection from long-term nursing home costs is understandable. Americans who have saved carefully throughout their working lives, only to face the prospect of those savings evaporating in nursing home bills, want Congress to do something. But legislation to create a new middle-class entitlement for the elderly, paid for by a tax on working Americans, would be unfair to workers. Moreover, the prospect of extensive federal aid would discourage workers from taking steps themselves, through insurance, to protect their assets from heavy nursing home costs. Private long-term care insurance is the best remedy for potentially catastrophic costs, and thus private insurance should be at the heart of any congressional legislation.

HOW NURSING CARE CURRENTLY IS PROVIDED

In a national survey conducted last year, 30 percent of the respondents reported personal experience with at least one family member receiving long-term care services during the previous five years.[2] With increased life expectancies and the impending retirement of the baby boom generation, the need for long-term care can be expected to grow substantially in the future.

While long-term care services do include intensive medical treatments for seriously ill individuals, most often they take the form of assistance with the basic activities of daily living. These include help to the physically impaired in performing such activities as cooking, eating, taking medication, bathing,

2 Mark R. Meiners, "Public Attitudes on Long-Term Care," The University of Maryland Center on Aging, March 1989.

dressing, using the bathroom, or moving from one place to another. In cases where the individual is physically healthy but has a diminished mental capacity, a major function of care-givers is to supervise the patients and to ensure that they do not inadvertently harm themselves or others.

Care Outside Nursing Homes. While most Americans associate long-term care with nursing homes, in fact only 29 percent of the elderly receiving long-term care are in such facilities. They represent about 5 percent of the total elderly population, or roughly 1.5 million individuals.[3] Nearly three times as many elderly receive long-term care services outside of nursing homes. These services are provided by spouses, adult children, other relatives and friends, and sometimes paid professionals.

Even when an individual enters a nursing home, long stays are not as common as popularly believed. While the average cost of nursing home care is about $25,000 per year, most stays are for a relatively short period, and usually at the very end of an individual's life. Of those who enter a nursing home, more than half stay less than three months, almost two-thirds stay less than six months, and three-quarters stay for less than a year. Only 16 percent stay for more than two years.[4]

Financing Long-Term Care

In cases where long-term care is provided to an elderly individual who is not in a nursing home, it usually consists of informal, unpaid care by family members and friends. While about 21 percent of those outside nursing homes receive both informal and paid professional care, only 5 percent rely exclusively on paid home care services.[5] Most professional care in an institution or at home is paid for out of the individual or family resources. This year, it is estimated that Americans will spend about $55 billion on nursing home care.[6] Of this amount, roughly half will be paid by patients and their families out of their own resources, with most of the other half paid for by Medicaid on behalf of poor patients.

Only about 1 percent of nursing costs currently are paid by private insurance. There is little market demand for long-term care insurance. A major reason for this is the tax treatment of such insurance policies. Tax-free employer-provided health insurance encourages workers to favor coverage for their immediate, anticipated acute-care medical needs, rather than coverage for the potential cost of long-term care later in life when they retire.

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3 National Center for Health Statistics, "Use of Nursing Homes by the Elderly: Preliminary Data from the 1985 National Nursing Home Survey," Advance Data, Number 135, May 14, 1987, and, "Task Force on Long-Term Health Care Policies, Report to Congress and the Secretary," U.S. Department of Health and Human Services, September 21, 1987.

4 *Ibid.*, pp. 84-91.

5 Robert Maxwell, Statement of the American Association of Retired Persons on Long-Term Care Financing, before the Senate Finance Committee, Subcommittee on Health, Washington, D.C., June 12, 1987.

6 "National Health Expenditures, 1986-2000," *Health Care Financing Review*, Summer 1987.

Under current tax law, even if workers want to purchase long-term care insurance or obtain it through their employer, they are required to pay for it with after-tax dollars.

Medicare. Medicare does not in general pay for nursing home expenses. The one exception is for recuperative skilled nursing care following a hospital stay. Medicare will pay for the first 20 days of care in a skilled nursing facility after a hospital stay of at least three days, if the care is for the condition treated in the hospital. Beyond that, Medicare will pay part of the costs for up to an additional 80 days in a skilled nursing facility, but only if beneficiaries pay a coinsurance fee ($72.50 this year) for each day. Because of these limited benefits, Medicare covers only about 2 percent of total nursing home costs for elderly Americans. Medicare does pay for medically-necessary home health care visits to provide skilled nursing and physical therapy services if the retiree cannot leave his or her home. But the program does not cover such routine custodial services as feeding, dressing, bathing or help with other daily living activities.

Medicaid. The vast majority of government assistance in meeting nursing home costs comes from Medicaid, a joint federal-state program whose eligibility and benefits vary from state to state. For the elderly, eligibility for Medicaid is linked to eligibility for Supplemental Security Income, or SSI. In general, to be eligible this year for SSI, and thus for Medicaid, an elderly individual must have less than $2,000 in saved assets, while a couple must have less than $3,000. Individuals and couples are not disqualified if they have a home of any value, an automobile with a market value of no more than $4,500, and household goods and personal effects of "reasonable" value. They are disqualified, however, if income this year exceeds $388 per month for an individual or $573 per month for a couple. Those with incomes above these limits can still get Medicaid coverage if their net income after medical expenses, including nursing home expenses, is below than these limits.

Once an elderly individual qualifies for Medicaid, the program will pay the full remaining cost of necessary nursing home care after the retiree contributes his or her income to such care, excluding a small personal allowance of $30 a month. The program also will pay for the full cost of physician-ordered and -supervised home health care services without any income contribution from the retiree. These services can include personal assistance and even homemaker duties.

In the past, a major shortcoming of Medicaid coverage was when an elderly nursing home patient still had a healthy spouse living in the community. In such cases, the couple with modest resources was forced to "spend-down" their income and assets until they both become impoverished before they could obtain government help. Very few elderly couples found themselves in this situation, since 88 percent of nursing home patients do not have a living spouse, but the system nonetheless did impose a harsh and seemingly unfair burden on a minority of retirees. One desirable feature of the 1988 Medicare catastrophic legislation was a provision designed to deal with this problem of spousal impoverishment, by raising the asset and income limit below which a

couple could qualify for Medicaid if one spouse entered a nursing home. This provision was retained when the law was repealed. Effective this year, noninstitutionalized spouses can retain between $800 and $1,500 a month of the couple's income and between $12,000 and $60,000 of the couple's assets.

DEFINING THE NEEDS

During the debate over catastrophic health care legislation, those Americans most concerned about long-term care tended to be viewed as a monolithic group. The fact is, they comprise essentially three basic groups of individuals, each with different needs and worries.

1) The Poor and Low-Income Elderly.

The Medicaid program already pays for the nursing home care of the elderly poor, and of retirees with modest income who become impoverished by their long-term care costs. Medicaid, however, was crafted as a medical care program for the very poor, particularly those who are non-elderly, and so the eligibility criteria for assistance are tied to other welfare programs. It was not designed to address heavy nursing home costs incurred by the non-poor. Moreover the eligibility criteria are often confusing and complex. This means that some needy retirees do not receive assistance they are entitled to, or do so only after unnecessary delays.

2) Middle- and Upper-Income Retirees.

It is these individuals who are most concerned about financing long-term care, and are lobbying the hardest for assistance. For this group, the issue is not access to care. They have the resources to pay for at least some of their own care, and when those resources are exhausted, they become eligible for Medicaid. Rather, the issue is how best to protect their assets from being ravaged by unexpected long-term care costs, and how to enable them to avoid the indignity of becoming impoverished and reliant on welfare. This is a major concern for single retirees in nursing homes who do not have a living spouse dependent on their income and assets. For these individuals, avoiding impoverishment is not a question of their own well-being, but rather one of preserving their estate for the benefit of their heirs. While few Americans would argue that government should compensate heirs who see the legacy they expected disappear in nursing costs, there is pressure on Congress to devise some means of preserving the assets of nursing home patients.

3) Today's Workers.

While very few working-age Americans face a long stay in a nursing home, they are becoming increasingly aware that when they retire, a long spell in an institution could wipe out their savings. Thus any effective solution to the problems of financing long-term care must include provisions to encourage today's workers and their spouses to prepare themselves adequately for potentially high long-term care costs when they retire. With the projected growth in the elderly population over the next four decades, failure to address this problem now would be one of the most foolish and expensive mis-

takes Congress could make, since pressure could build in the future for a massive federal program to deal with a perceived crisis. Yet lawmakers must be careful when they act: Congressional steps taken to address the problems of today's elderly must not give younger Americans the incentive to avoid taking their own prudent actions to pay for potential nursing home costs.

AN AGENDA FOR CONGRESS

Recognizing that Americans differ in their needs, Congress should pursue a three-pronged strategy for dealing with long-term care. The first element in this strategy should be to improve the financing and delivery of long-term care services to the poor. This means restructuring federal and state programs, particularly Medicaid, to make better use of the billions of tax dollars already being spent on long-term care assistance.

The second element is that Congress, to prevent long-term care financing problems from becoming worse, should change tax laws to encourage today's workers to buy long-term care insurance protection now. Tax policy also should be designed to encourage working Americans to help meet the long-term care needs of elderly family members.

The third element is that Congress should enact reforms that give current middle and upper-income retirees more flexible and affordable methods for using their own resources to meet the potential costs of long-term care.

Specifically, Congress should:

1) Remove long-term care from Medicaid and create a new program designed specifically for long-term care services to the poor.

The first step in meeting nursing home needs is for government to do a better job of fulfilling its obligation to assist the indigent elderly. This can be accomplished in large part by separating long-term care assistance from Medicaid, which is a program designed primarily to deliver acute-care medical services to the poor — young and old alike. The problem with using Medicaid for nursing home care are that its eligibility criteria cannot easily and efficiently accommodate both the welfare mother who needs emergency hospital care and the disabled retiree with a modest home and pension who faces huge nursing home bills.

Federal-State Partnership. To address the very different needs of these groups, the program should be split. Congress should remove long-term care for the elderly poor from the current Medicaid system and create instead a separate program, perhaps called Long-Term Care Assistance.

Following the cost-sharing principle of federalism now used in Medicaid and most other assistance programs, this new Long-Term Care Assistance should be a federal-state partnership. State and local governments should administer the new program and be free to structure it to suit local needs. The federal government should set the minimum eligibility criteria and provide

the states with matching funds, according to the number of eligible individuals in each state.

Most important, the program should have its own, separate eligibility criteria. These should be suitable for a nursing program for elderly Americans with few assets. Under the current Medicaid program, the eligibility criteria for nursing home assistance care are enmeshed in a program originally intended to provide welfare to single mothers and the able-bodied indigent.

A Long-Term Care Assistance Program of this kind would create a more rational and flexible system for meeting the needs of the elderly poor. States, for example, would have greater leeway to experiment by substituting home or community-based care for institutional care in certain cases. States can now do this only through a cumbersome process of applying for waivers from existing federal Medicaid rules, and those waivers often are for only a limited period.

2) Encourage today's workers to buy insurance that protects them against the future possibility of needing long-term care.

To ensure that today's workers are adequately prepared to meet their own potential need for long-term care when they retire, Congress should change the perverse incentives in current health care tax policy. Under the U.S. system of employer-provided health insurance, health benefits are not counted as part of a worker's salary, and so are not subject to tax. In fact, many workers do not even know how much their employer spends on their health care. Not surprisingly, workers tend to respond to these incentives by demanding tax-free health insurance coverage for medical care that they expect to need in the immediate future, no matter how routine or inexpensive. The result is insurance policies that cover affordable, everyday medical expenses, but do not cover long-term care or – in some cases – even catastrophic acute hospital care.

These tax incentives should be reversed, to encourage consumers to purchase most of their routine health care out-of-pocket and buy health insurance policies that provide coverage for unlikely but expensive occurrences, such as long-term care. This is particularly important in the case of long-term care insurance, since the earlier a worker purchases such insurance, the cheaper the premiums.

Control for Consumers. The best way to achieve this is by giving consumers direct control over the money now spent on their health care and changing the tax incentives.[7] The current tax exclusion for employer-provided insurance should be eliminated; instead, workers should receive as cash wages the money their employers now spend on their health care.

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7 For a more detailed explanation of these and related proposals, see: Stuart M. Butler and Edmund F. Haislmaier, eds., *A National Health System for America* (Washington, D.C.: The Heritage Foundation, 1989).

To compensate for ending the tax exclusion for employer-provided insurance, Congress should provide all Americans with tax relief for all of their medical expenses directly through the personal income tax code. Taxpayers could be given, say, a basic tax credit of 20 percent of all money spent on health insurance premiums, including long-term care insurance, and a 30 percent tax credit for all out-of-pocket medical expenses, including those for long-term care services. These tax credits should be refundable, meaning that if a family's income tax liability is less than the value of the credit, the family receives money back from the government. This would enable lower-income families, who pay substantial payroll taxes but little or nothing in income taxes, to receive the same tax relief as more affluent families.

3) Encourage working Americans to help meet the long-term care expenses of elderly relatives.

Building on the general health care tax reforms outlined above, Congress should provide additional, targeted tax relief designed to encourage middle-aged, middle-income Americans to pay some of the costs of medical care or insurance for needy relatives. These needy relatives most often are uninsured young-adult children, or elderly parents who require some form of long-term care assistance or services.

Such individuals generally do not meet the normal legal eligibility criteria to be considered a "dependent." Congress should allow taxpayers to take the new health care tax credits described above for money spent on the medical expenses of such relatives without having to meet the normal dependent support test. Current law requires that before a taxpayer can claim a personal exemption, deduction, or credit for a dependent, he must be able to demonstrate that he provides at least 50 percent of that dependent's total annual support. By waiving this dependent support test for the new health care tax credits, taxpayers would be able to receive tax relief for helping pay for the health care of medically or financially needy relatives.

This provision would be particularly helpful in the area of long-term care. It would have the effect of encouraging workers to help their parents, or other elderly relatives, to purchase long-term care insurance or professional long-term care services.

4) Encourage further development of affordable long-term care insurance.

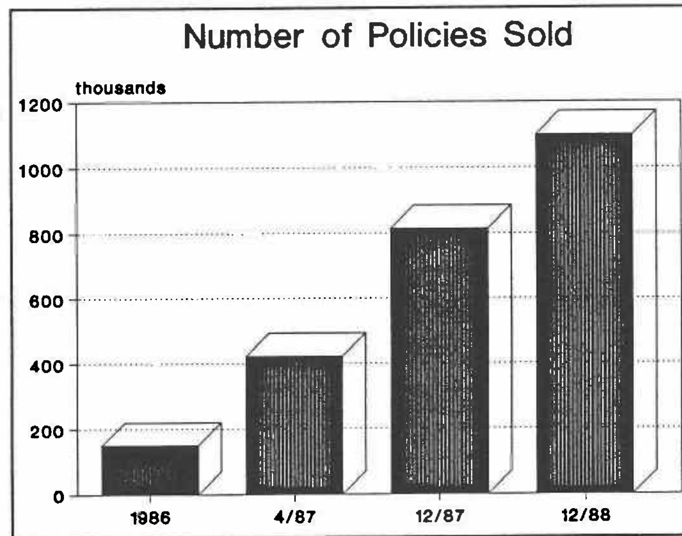
Congress needs to recognize that protecting today's middle - and upper-income retirees from the costs of long-term care is really a financial planning problem that can, and should, be addressed through the private sector with insurance or other financial mechanisms. Protecting a family from nursing home costs is no different from protecting that family from the financial blow of any other catastrophe, such as the death of a breadwinner or the loss of a home through fire. This is a job for insurance.

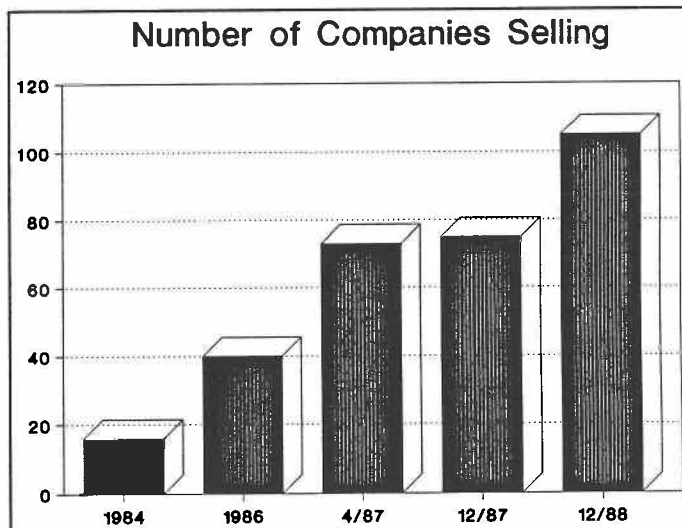
The problem today is that few Americans think of buying long-term insurance while they are relatively young. This lack of demand means that insurance plans are not widely available and are expensive for the minority of

consumers interested in them – namely high-risk Americans who have already passed retirement age. While good, comprehensive data are lacking, two recent comparative surveys of plans estimate the average annual premium for plans purchased at age 65. One survey finds this to be $790 annually; the other puts the figure at $1,255.[8] The average annual premiums for plans purchased at age 79 is $2,775 in one survey and $3,860 in the other. By contrast, one other survey reports the average premiums at age 50 to be only $316, and at age 40, just $175.

While there are only about two million long-term care insurance policies in force, the market is growing rapidly with companies continuing to offer new or improved policies (see charts). There are several steps Congress and the Bush Administration can take to stimulate expansion of this market, much as it used tax incentives and other encouragements earlier this century to boost the purchase of life insurance.

Growth in Long Term Care Insurance





Source: Health Insurance Association of America, "Long-Term Care Insurance: Market Trends," March 1989.

Heritage InfoChart

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8 The two surveys, which come from organizations at opposite ends of the spectrum, are "Health Insurance Association of America, Long-Term Care Insurance: Market Trends," March 1989, and Families U.S.A. Foundation, "The Unaffordability of Nursing Home Insurance," January 1990.

♦ ♦ **Develop better data on the cost and range of long-term care services.**

A major concern of private insurers is the lack of solid data on which to base long-term care insurance policies. When an insurer does not feel confident about the projected future cost or demand for the benefits of its policies, the insurer will hedge by charging higher premiums to cover unanticipated future expenses. To increase insurers' confidence and make them willing to lower premiums for long-term care insurance, more data on the incidence, duration, and costs of long-term care are needed. Both the federal government and private insurers have made considerable progress in this area in recent years, but more needs to be done. Providing the Department of Health and Human Services (HHS) with additional funds to improve the collection and analysis of long-term care data would be a small but important investment of tax dollars in solving the problems of long-term care financing.

In addition, many potential purchasers of long-term care insurance are confused by the range of services available. Many balk at buying a plan apparently because they are unsure of what the plan covers. HHS could help insurers to reduce this confusion by working with insurance companies to classify plans. Plans within a certain classification would have to contain roughly equivalent services and eligibility criteria for benefits.

♦ ♦ **Give long-term care insurance the same tax incentives now enjoyed by life insurance.**

The Internal Revenue Service last April took a significant step in this direction by ruling that, in general, it will not tax the earnings of insurance companies, reserve funds for long-term care policies, just as it does not tax life insurance reserve funds' earnings. This allows insurance companies to pay a greater share of benefits from their interest earnings and a smaller share from the premiums they collect. The result: lower premiums. This IRS ruling should be clarified further and confirmed by legislation. In addition, benefit payments from long-term care policies should be made tax exempt, as are life insurance benefits.

♦ ♦ **Encourage development of life insurance policies that convert to long-term care insurance upon retirement, by removing taxes on benefit payments under such policies.**

Families buy life insurance to protect themselves against the loss of earning capacity during working years. Such protection generally is not needed to the same extent in retirement, when family income is no longer dependent on the employment of the head of household. High nursing home costs, in fact, pose a far greater financial threat than does the death of the head of household. As such, it makes sense for the government to encourage life insurance companies to offer policies that gradually reduce the benefits payable at death and phase in benefits payable for long-term care. Some insurance companies already offer these convertible policies. More of this could be encouraged by removing taxes on the benefits paid under such policies, thus making them more affordable.

♦ ♦ Allow Americans to use their retirement funds to make tax-free purchases of long-term care insurance.

Until such time as Congress enacts the more comprehensive health care tax reforms outlined above, workers at least should be allowed to treat employer contributions to a long-term care plan as a tax-free fringe benefit, as they now do with employer-provided, acute-care health insurance plans. Workers and retirees also should be allowed to use funds in pension plans, 401(K) plans, Individual Retirement Accounts (IRAs), and other retirement plans to make tax-free purchases of long-term care insurance. Similarly, employers should be allowed to use excess reserves in overfunded pension plans to fund long-term care health insurance benefits for their employees in retirement. This would provide a tax incentive for the purchase of long-term care policies by working Americans.

5) Promote home equity conversions to help fund the cost of long-term care.

In many cases, elderly individuals have substantial non-liquid assets, such as a home, that could finance long-term care. These individuals, however, find themselves with a difficult choice – go on welfare and keep their house, or sell their home to defray costs. If they choose the first option, the government will be able to claim all or part of their estate when they die to defray the cost to Medicaid of their nursing home stay. If they choose the second option, they may be forced to sell under disadvantageous circumstances and receive a below-market price.

As an alternative, the federal government should promote the development of financial instruments to enable the elderly to use the equity in their homes to finance long-term care insurance or services. Under a "reverse annuity mortgage," for example, an elderly homeowner receives a monthly payment from a finance company. The growing debt that this creates is secured by the equity. The monthly income received might pay for long-term care insurance premiums, or for regular payments to a nursing home or home health care provider. These equity conversion strategies allow the retiree to avoid welfare, and also allows him or her to retain use of the home. The accumulated debt is paid when the home eventually is sold – usually as part of the estate when the retiree and spouse have died.

Right to Rent. Under another arrangement, known as "sale leaseback," the elderly homeowner sells the home for a lump sum with the unlimited right to rent back the property for life at a determined rate. The proceeds of the sale then could be used to fund long-term care directly or through insurance.

Reverse mortgage plans can help middle-class retirees meet nursing home or home health care bills without forcing them to confront a dilemma in

which they must lose their home or be forced to liquidate assets intended for normal living expenses. More than 60 percent of the elderly own their own homes and 49 percent own them free of any debt. Among retirees who own homes with no outstanding mortgage, 28 percent have between $30,000 and $75,000 in home equity and another 10 percent have equity over $75,000.[9]

Reverse mortgage plans are available in various parts of the country, where state law permits them. Last hear the U.S. Department of Housing and Urban Development (HUD) gave such plans a boost by launching a demonstration project to insure up to 2,500 home equity conversions. This makes the plans more secure and thus far more attractive to mortgage companies. The federal government should continue to promote equity conversions and should mount a publicity campaign to encourage the elderly to explore this option for paying long-term care costs.

As part of its demonstration project, HUD also is insuring home equity lines of credit to retirees who have little or no mortgage debt on their homes. Similarly, Maryland and Virginia have developed programs providing state-subsidized and insured lines of credit to low-income elderly home owners. The federal and state governments should continue to pursue and expand the availability of these options for financing long-term care.

CONCLUSION

For many Americans, how to finance the actual or potential need for costly long-term care for themselves or a relative is an important and pressing question. Predictably, one of the places they look for solutions is Congress. Lawmakers can, in fact, take some significant steps to improve the financing of long-term care. But before enacting any long-term care legislation, Congress must remember two very important points:

1) **The federal and state governments already provide some $25 billion** in long-term care assistance, chiefly through the Medicaid program. This assistance is already targeted to those who need it the most: the poor, individuals who become poor as a result of long-term care expenses, and the healthy spouses of nursing home patients who, in the absence of public assistance, would become needlessly impoverished as well.

2) **While reforms in Medicaid are needed for existing funds to be used more efficiently, those most worried about long-term care costs are not the poor**, but middle-income Americans. They fear that the potential costs of long-term care could consume the savings and assets they have accumulated over a lifetime, leaving nothing for their heirs. While it is easy to sympathize with these fears, the fact is that long-term care for middle-income Americans

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9 Robert B. Friedland, *Facing the Costs of Long-Term Care* (Washington, D.C.: Employee Benefit Research Institute, 1990).

does not concern access to needed medical care, but rather, involves questions of asset protection and estate planning.

Improving Service Delivery. In light of this, Congress's role should not be to create an enormous new federal program that imposes additional, heavy taxes on working Americans simply to further subsidize affluent retirees. Rather, lawmakers should stick to the more appropriate tasks of improving the delivery of long-term care services to the poor – those who legitimately need government help – and encouraging middle-income Americans to take, through the private sector, the same prudent actions to protect their assets from nursing home costs that they take to protect themselves from other financial catastrophes.

Specifically, Congress should:

♦ ♦ Restructure the public assistance for long-term care now provided through Medicaid to create a more effective and responsive program for meeting the needs of the elderly poor.

♦ ♦ Encourage working Americans and their spouses, through tax incentives, to buy long-term care insurance now, while they are younger and the premiums are low, to protect themselves when they retire.

♦ ♦ Provide tax relief to help working families meet the cost of providing non-institutional care to their elderly relatives.

♦ ♦ Change existing policies and regulations to enable today's middle- and upper-income retirees to obtain more affordable long-term care insurance, and enable them to use their existing assets and resources more effectively to pay for long-term care services.

Such a strategy constitutes a fair, compassionate, and efficient approach to meeting the needs of America's present and future retirees for long-term care. Congress should enact these reforms now, while there is still time for them to take effect before the "baby-boom" generation reaches retirement age and the problems of long-term care financing become any worse.

Edmund F. Haislmaier
Policy Analyst

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