

Issue Brief #2 Executive Summary

The second Issue Brief in the series on long-term care financing reports our efforts to determine whether selected financing options can be used to reduce the number of Minnesotans who will not have sufficient resources for general retirement expenses and long-term care.

We estimate the number and characteristics of the aging baby boomers in Minnesota (born between 1936 and 1965) who will be at high risk of not having enough retirement resources to meet their future projected expenses for both retirement and long-term care.

Twenty-nine percent of Minnesotans born between 1936 and 1965 are projected to have insufficient retirement resources and are at high risk of ending up on the state Medicaid program.

Within these categories we estimate what types of people are most likely to eventually need Medicaid for financial assistance in meeting long-term care expenses. We also provide an analysis of four policy options and discuss their potential to impact future Medicaid spending.

For additional detail on the policy options and the EBRI model used to project future risk of income security, consult Issue Brief #1, Retirement Security and Minnesota's Elderly Population (March 2005), and Issue Brief #2, Policy Options and Retirement Income Security (July 2005).

Retirement Security and Minnesota's Growing Elderly Population

There is growing concern about the aging baby boomer population and whether they will have sufficient income to cover their general retirement expenses, including health and long-term care. Using Minnesota population data and a model developed by the Employee Benefit Research Institute (EBRI)¹ we have estimated that more than one in four, 29%, of Minnesota baby boomers (born between 1936 and 1965) are at very high risk of retirement income insecurity. An additional 17% are at moderate to high risk.

Table 1: Estimating Future Retirement Income Insecurity for Minnesotans Born Between 1936-1965

Risk of Retirement Income Insecurity	Number people in Minnesota (born 1936-1965)	Percent of Minnesota population
Very High Risk	533,450	29%
Moderate to High Risk	326,360	17%
Low to Moderate Risk	1,013,920	54%
Total	1,873,730	100%

How policy options can impact individual financing of long-term care

Faced with these projections and tight budgets, policy makers are understandably concerned about the potential growth in future Medicaid obligations. In response, federal and state governments are considering and implementing policies and programs to encourage people to accumulate more resources for retirement and long-term care through savings and other financial mechanisms, or to help people avoid the need for formal long-term care.

The primary objective of many public policy proposals is to find ways to encourage people to make plans for and pay for their health and long-term care expenses. In Minnesota, exploring options has taken the form of a Long-Term Care Financing Reform Initiative including a legislative mandate for a report on several options. This second Issue Brief in the two-part series on Long-Term Care Financing seeks to contribute to this effort by evaluating the potential effect of several proposed policies.² Additional resources and data are required for specific cost-benefit analysis of each proposal acknowledging the potential for interacting effects if more than one policy option is pursued. We present here a first look at the potential costs to the state based on available research.

In this brief we assess specific policy options for moving people out of the higher risk categories to lower risk categories. Specifically, the intent is to help inform policy makers on decisions to target programs to those at risk of not having sufficient retirement resources, to help them expand their opportunities to increase retirement resources, and to reduce the probability that these individuals end up on Medicaid.

Financing Options Considered

1. Long-term care insurance partnership
2. Tax incentives and subsidized long-term care insurance
3. Reverse mortgages
4. Family loan program

For each policy option we provide a brief description and assessment in terms of:

- up-front costs to the state,
- the probability the program would reduce Medicaid long-term care expenditures, and
- additional comments.

We did not address the option to mandate that insurers offer a nursing facility benefit to Medicare supplemental products. The Minnesota Department of Human Services has already recommended that this option not be pursued.

The Minnesota Department of Health conducted a related study in January 2000 and concluded that mandating the addition of a nursing facility benefit to Medicare supplemental insurance policies would drive up the cost substantially and likely cause current policy holders to drop their coverage.

For a complete description of options and discussion of potential impact on future state Medicaid expenditures, see Issue Brief #2, Policy Options and Retirement Income Security (July 2005).

Policy Option 1: Long-Term Care Insurance Partnership

Four states currently have demonstration programs where individuals who maintain long-term care insurance and then later have care needs that exceed their coverage become eligible for Medicaid without having to meet some financial requirements. The specific program details vary by state.

Upfront Cost to the State: Some minimum administrative costs. Potential back-end costs include losing the ability to use estate recovery to access home equity and other assets to reimburse the state for the cost of long-term care services.

Probability of Reducing Medicaid Long-Term Care Expenditures: Moderate to High
The program has attracted individuals at moderate to low risk of income insecurity. With appropriate outreach, the program could be of value for those at risk of needing Medicaid for long-term care and who also have some assets they would like to maintain as part of their estate, such as their homes. Potential savings result from extending the traditional "spend down" period because individuals use their private long-term care insurance to cover their long-term care costs over the benefit period before accessing Medicaid.

Additional Comments: Current federal law prohibits new state partnership models. Implementation of this policy option would be contingent on a change in federal law. This mechanism provides an opportunity to develop public-private partnerships in which the individual is responsible for a set amount of long-term care, and the state provides catastrophic coverage if the need exceeds that set amount. While the original demonstrations are based on the individual's purchase of long-term care insurance, the model could also be replicated with reverse mortgages or other financing mechanisms.

Policy Option 2: Tax Incentives and Subsidized Long-Term Care Insurance Options

Tax incentives include tax credits to reduce a person's taxable income based on the purchase of a long-term care insurance policy. Tax credits are usually a fixed amount (currently \$100 in Minnesota) and serve as a direct state subsidy to pay for a portion of the long-term care insurance premium.

Upfront Cost to the State: The basic cost is the loss of tax income or the money paid for a direct subsidy. Even with a small credit or deduction, these costs could be high if income limits are not required.

Probability of Reducing Medicaid Long-Term Care Expenditures: Low to Moderate
While some research suggests that having long-term care insurance will improve retirement income security, the effectiveness of tax incentives in encouraging the purchase of insurance has not been demonstrated. Tax incentives are more likely to benefit middle- and upper-income individuals and those at low risk of income insecurity. Social Security is not taxable income and approximately half of older Americans do not have enough taxable income to take advantage of this type of credit.³ Therefore, this policy option may not address needs of many people in the target population.

Additional Comments: There is general concern that a substantial tax break is needed in order to change behavior. That is, the cost to the state would be great in order to significantly increase the current low utilization rates of long-term care insurance in the private market. An argument in support of tax incentives for long-term care insurance is that they would provide a "signaling effect," leading to growth in the market and increased quality of the insurance products offered. A positive cost/benefit ratio for the state is difficult to guarantee because the time between incurring the cost (giving the tax benefit) and realizing the benefit may average 20 years, and could be as high as 45 years if a policy is purchased at middle age.

Policy Considerations

Policies that intervene closer to when people need services (such as reverse mortgage or family loan) are less risky in the sense that a higher proportion of people served may have needed Medicaid support absent the program.

Policies with longer timelines (i.e., long-term care insurance) may have a larger global impact on the population but are more difficult to target and require an ongoing commitment by the state.

Forecasting Medicaid Expenses

Forecasting future Medicaid expenses requires good data as well as assumptions about the future costs, use of service and individual behavior.

For policies related to the financing of long-term care to save future Medicaid dollars they must effectively target people who will:

1. Need formal long-term care services, and
2. Have some means to pay for their own care but are likely to spend down to Medicaid eligibility when they need extended care absent the new policy and program.

States currently look to existing national models that have used relevant data and statistical methods to help predict long-term care costs. Currently there is very limited ability for states to develop state-specific forecasting models.

Policy Option 3: Reverse Mortgages

A reverse mortgage allows senior homeowners to draw a lump or monthly sum, tax free, based on the value of their home equity. They can use this money for any purpose, including long-term care costs and/or long-term care insurance premiums.

Upfront Cost to the State: Some, if the state chose to subsidize the fees and closing costs, or to administer the program directly in order to remove barriers which currently discourage use of the reverse mortgage option.

Probability of Reducing Medicaid Long-Term Care Expenditures: Moderate to High A national study by the National Council on Aging estimated that of the 13.2 million candidates for reverse mortgages, about 5.2 million (39%) are either already receiving Medicaid or are at financial risk of needing Medicaid. The study also estimated that if 4% of eligible households were to take out reverse mortgages to pay for services in their homes, Medicaid would save \$3.3 billion a year nationally. High rates of home ownership in Minnesota make it likely that this option would be viable for a significant proportion of people at risk.

Additional Comments: There is some concern that the current fees and closing costs are too high for some seniors. There is also concern about equity being used for purchases other than long-term care. Policies requiring that reverse mortgages be used for long-term care insurance raise concerns that individuals may exhaust their home equity before there is even a need for services. These people would have no equity left and would not be able to maintain their long-term care insurance policy. This option may be of limited value in rural areas where housing values are low.

Policy Option 4: Family Loan Program

A family loan program is a financing mechanism that facilitates payment by others for an elder's long-term care. One or more family members would apply for an unsecured line of credit and use the money to pay the difference between the elder's income and the cost of long-term care. The payments from the line of credit are made directly to the provider and the borrower makes a monthly payment over a longer period of time (often 3 to 5 years).

Upfront Costs to the State: None, if the program remains private; or potentially significant if the state administers the program or provides subsidies or guarantees to lenders. These costs could be as high as 17% of the total loan program, based on experience from the US student loan program.⁴

Probability of Reducing Medicaid Long-Term Care Expenditures: Low

The family loan program will most likely affect those in the moderate to low risk categories by providing loans for short-term care needs or for short periods of time before long-term financing arrangements are secured.

Additional Comments: There are issues related to providing public subsidies for a private market product, particularly when it is difficult to guarantee benefits to the state. It is difficult to estimate impact or target this type of program because no data are easily available about the ability or willingness of family members to incur debt to pay for a relative's care.

Resources for Additional Information

The Minnesota Department of Human Services has established a web-based resource for long-term care financing issues. This page includes links to reports, conferences and forums on the subject.

The DHS long-term care project page is available at: http://www.dhs.state.mn.us/main/groups/aging/documents/pub/dhs_id_025734.hcsp

Check this page regularly for updated project information publications.

Summary

States are examining new policy initiatives that address the growing number of aging baby boomers and their potential need for public assistance to meet their long-term care needs. Our analysis has highlighted the concern that as many as 29 percent of Minnesota baby boomers will be at risk of not having enough retirement income to cover their retirement expenses. We have identified the characteristics of Minnesotans who are in the high-risk category and likely to end up on Medicaid. This is a significant concern to the state as it considers its future financing obligations.

In analyzing the four policy options against their potential to reach the target population, we assess the ability of that option to have a significant impact on future Medicaid costs. Two options, the family loan program and the tax incentives, are clearly targeted to those with low to moderate risk of needing help in meeting their retirement and long-term care needs, and evidence to date indicate that they will have minimal impact on future Medicaid costs.

There is evidence to suggest that reverse mortgages have potential to target a segment of the at-risk population with a significant estimated impact on future Medicaid savings. Finally, while there is only limited experience with the new partnership model, we believe that with appropriate targeting and outreach it could potentially meet the same subset of the target population as could be reached through reverse mortgages.

States will need to consider a combination of public-private strategies to effectively address the ballooning number of aging baby boomers who are potentially at risk of needing Medicaid support in their retirement years. Part of this strategy must be an effective education campaign to educate individuals about the growing gap between retirement resources, the risk of needing long-term care and the health and long-term care costs associated with retirement. This two-part Issue Brief series helps to start this process of education and policy development in the state of Minnesota.

Additional state-level data are required for more specific cost benefit analysis of each proposal. While several national models exist, states will need to consider their own unique circumstances including characteristics of the retirement population in the future as well as Medicaid program eligibility.

References:

- ¹ VanDerhei, J and C Copeland. 2003. "Can America Afford Tomorrow's Retirees: Results from the EBRI-ERF Retirement Security Projection Model." The Employee Benefit Research Institute Education and Research Fund (EBRI-ERF), Washington DC.
- ² Additional Minnesota information is available at: http://www.dhs.state.mn.us/main/groups/aging/documents/pub/dhs_id_025734.hcsp
- ³ Weiner, JM. 2000. "Commentary: Pitfalls of Tax Incentives for LTCL." Tax Policy Center, Washington DC.
- ⁴ Shireman, R. 2004. "Straight Talk on Student Loans." Center for Studies in Higher Education: Research and Occasional Paper Series. University of California - Berkley.

Prepared by Annette Totten, Ph.D. and Lynn Blewett, Ph.D., of the State Health Access Data Assistance Center (www.shadac.org), University of Minnesota Division of Health Services Research and Policy, with funding from the Minnesota Department of Human Services. July 2005.

Issue Brief #1, Retirement Security and Minnesota's Elderly Population (March 2005), and Issue Brief #2, Policy Options and Retirement Income Security (July 2005), as well as corresponding Executive Summaries, are available at: http://www.dhs.state.mn.us/main/groups/aging/documents/pub/dhs_id_025734.hcsp