

# Virtual Mentor

American Medical Association Journal of Ethics  
June 2008, Volume 10, Number 6: 397-400.

## POLICY FORUM

### The Strains and Drains of Long-Term Care

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Before the end of their lives, nearly 7 in 10 of today's 65-year-olds will need help with basic personal care—bathing, dressing, and eating—and with household responsibilities essential for independent living, like shopping and preparing hot meals [1]. The financial, emotional, and physical costs of providing long-term care often overwhelm families; unpaid family members supply most of it, struggling to balance these duties with work and other responsibilities. The most common alternative to home care is a nursing home, but a year's stay averaged about \$78,000 in 2007 [2], and public assistance is not generally available until the residents have exhausted all of their financial resources. As the nation grows older, it's time to find a better way to care for those who need help as they age.

In 2004 Americans spent \$135 billion on long-term care for older adults [3]. Medicaid, the largest single payer, currently finances 35 percent of the institutional care and home health services for eligible adults who cannot pay the full cost themselves. Although Medicaid also offers home- and community-based services and a variety of nonmedical and social supports designed to keep people with disabilities in the community, most of the program's spending on the aged and disabled is for institutional care [4].

Medicaid provides a fairly comprehensive package of services, but individuals must meet strict income and asset tests to qualify for coverage. Eligibility rules are complex and vary by state, but nursing home residents must generally surrender all of their assets, except for about \$2,000, and all of their income, except for a small personal needs allowance that may not exceed \$90 per month. Participants in special Medicaid programs may protect more of their income to cover community living expenses, but some states do not allow them to keep more than \$637 per month [5], barely enough to live on. Medicaid beneficiaries with community-dwelling spouses are able to shield additional income. By requiring beneficiaries to turn nearly all of their savings over to the state, Medicaid discourages people from putting aside money to cover future long-term care costs.

Medicare is the other major federal program that finances long-term care, but it does so only under certain conditions. Medicare covers the first 100 days in a certified skilled nursing facility after hospitalizations and provides limited home health benefits, including medically necessary skilled nursing care, physical therapy, speech language services, and occupational therapy for homebound beneficiaries.

Given the limitations of public benefits, seniors and their families bear much of the cost. At \$45 billion, out-of-pocket spending accounted for about one-third of all long-term care spending for older Americans in 2004 [3]. This number would be even higher if family members—about 34 million in 2004—were not supplying much of the care for free [6]. This responsibility usually falls to adult children: daughters and daughters-in-law account for about 36 percent of unpaid caregivers to all older Americans, and sons and sons-in-law account for another 16 percent [7]. Nearly three-quarters of unmarried, older care recipients, most of whom are widowed, receive some assistance from their children.

The benefits of unpaid family care to older Americans are enormous, enhancing the lives of millions of frail adults and permitting many to live in their own homes instead of in nursing homes. In fact, a federally funded study found that, over a 2-year period, older adults who received frequent help with basic personal care from their children were about 60 percent less likely to enter nursing homes than those who received less support [8]. The value of unpaid help from all family and friends totaled about \$103 billion in 2005 [9].

Care responsibilities for older adults are time consuming. On average, daughters who serve as primary caregivers to their frail older parents spend about 266 hours assisting with basic personal care and household chores each month [7], more than most people spend at full-time jobs. Caregiving typically lasts about 4 years [6].

About one-half of those caring for their aged parents are employed full time [7], and about 57 percent of those who are employed report that they sometimes have to go to work late, leave early, or take time off to attend to their care duties [6]. Another 17 percent found it necessary to take leaves of absence. Only about one-quarter of companies with 100 or more employees have programs to support elder care [10].

### **Re-Thinking the Current Payment System**

The system I've just described barely works now, and will be under greater strain as the nation ages. The number of Americans age 85 and older—and at greatest risk for needing long-term care—will quadruple between 2000 and 2050 [11]. The ongoing decline in family sizes, combined with historically high rates of divorce and employment among women, will reduce the availability of future, unpaid family caregivers and increase the need for paid services [12].

Policymakers can encourage Americans to prepare for their own long-term care needs or create a larger role for government financing or both. For example, Congress could enhance tax incentives for purchase of private long-term care insurance. Only about 9 percent of Americans age 55 and older currently have private coverage [13], and it covered only about 4 percent of older adults' long-term care spending in 2004 [3]. Tax incentives could boost these rates by lowering policyholders' after-tax premiums. Recent evidence suggests, however, that such incentives would not significantly increase enrollment among low- and moderate-income adults [14].

The private market for long-term care insurance is beset by problems. First, the fact that Medicaid pays for expenses that exceed a care recipient's financial resources discourages potential buyers, as does the inherent uncertainty involved in purchasing coverage for an event that will probably not materialize for 30 years, if at all. If consumers are able to look past these uncertainties and choose to enroll in long term care, they often find that benefits are inadequate to cover expenses. The private market also suffers serious adverse selection problems; that is, people who expect to need long-term care are more likely to purchase coverage and draw benefits, which drives up premiums and discourages those who don't expect to need the coverage from buying it. Lastly, the system has high administrative costs.

These marketplace limitations suggest a role for the public sector. My colleague Leonard Burman, director of the Urban-Brookings Tax Policy Center, and I have proposed expanding Medicare to cover comprehensive long-term care services, including home and custodial nursing home care [15]. Medicare expansions of this kind, however, would have to be properly funded through higher taxes.

We also need better supports for family caregivers. Additional funding for the National Family Caregiver Support Program, which offers information, counseling, and respite, and for Medicaid's home- and community-based services would benefit many overwhelmed caregivers.

It's not too late yet to create a workable long-term care financing system for the 78 million baby boomers because the oldest of them will not reach their 80s for another 20 years. Time is running out, however. The best solution would be to set aside money now, either publicly or privately or both, to cover these large, looming costs, reducing the financial and physical burden on the next generation of frail older Americans and those who care for them.

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