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# Policy Brief

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## Can Mainers Afford to Pay for Long-Term Care as the "Baby Boom" Generation Ages?

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### What is the Problem?

Long-term care services for older adults represent a significant share of total health care spending and this share is expected to increase as the "baby boom" generation continues to age. Unlike the broad coverage provided for other kinds of health care services, private insurance policies and Medicare cover only a small portion of total long-term care services.

Medicaid is the primary funding source for long-term care. Nationally, 44% of long-term care is paid for by Medicaid. Direct out-of-pocket payments by individuals represent the second largest source of payments or 25%. Private health insurance covers about 10% of long-term care expenditures and Medicare pays for about 14% of such care.<sup>1</sup> Medicare pays for short stays in nursing homes and for skilled health care for people who are homebound (following a hospital stay).

About one third of Maine's Medicaid budget is spent on long-term care services including nursing homes, home health and home care services. Payments to nursing homes account for half of the Medicaid long-term care expenditures and payments for home and community based services represent about 40%. This is a dramatic shift from the early 1990's where more than two thirds of Maine's long-term care expenditures were for nursing home care and only 16% was for home and community based services.<sup>2</sup>

Long-term care is expensive and for most people, unaffordable. Out of pocket spending on long-term care services, along with prescription drugs, represents the greatest health-related financial risk for older adults, particularly people who are vulnerable due to advanced age or disability. In 2000, 60 percent of people over age 65 said they were not confident in their ability to pay for nursing home care and 55% of people age 65 and over lacked confidence in their ability to afford home care.

The cost of long-term care insurance varies greatly according to the age at which it is purchased and the type of protection provided. The annual insurance premium for a person at age 65 with \$100/day benefit ranges from around \$700 to \$1200 a year.<sup>3</sup> Few older adults actually purchase long-term care insurance. By the year 2025, typical elderly Medicare beneficiaries are expected to spend about \$5248 a year or 30% of their income on health care.<sup>4</sup>

Most people have to rely on private resources, or when money runs out, on Medicaid to pay for long-term care. For this reason, Medicaid often becomes the safety net for people needing long-term care. In times of tight budgets, Medicaid becomes a frequent target for cost cutting.

### **Who Will Need Long-Term Care?**

As the baby boomer generation ages, the need for long-term care services will grow. Maine has a higher proportion of people over 65 (14%) compared with the nation (12.7%). This group is expected to grow by 45% by the year 2020. The likelihood of disability and need for long-term care rises rapidly with age, and as people continue to live longer, the fastest growing age group is the oldest old, those over 85. By 2020, the number of people over 85 is expected to grow by 47%.<sup>5</sup>

A higher number of older people in Maine live in poverty (16%) compared with the nation (9.8%). While most older adults are free of disabilities, about 18% have some difficulty with mobility or self-care. About 4% of the population over 65 resides in nursing homes.<sup>6</sup> The Alzheimer's Association estimates that 10% of those 65 and over have Alzheimer's disease and approximately 50% of people over 80 have the disease. These individuals will need long-term care services at some point. It is estimated that the average life time cost of caring for a person with Alzheimer's is \$174,000.

Health care costs increase sharply with age and level of disability. In 1996, average per capita health care costs for non-institutionalized people age 50-64 was \$2,930 compared with \$7,453 for people over 85. For people with severe disability and functional limitations in addition to multiple chronic illnesses, average health expenses reach \$16,895. Out of pocket spending shows similar trends by age and level of disability.<sup>7</sup>

### **How Much Does Long-Term Care Cost?**

Nursing home care is the most expensive kind of long-term care. A year in a Maine nursing home costs an average of \$48,000 a year. Most people cannot afford to pay for a long nursing home stay with their own resources. Most people who enter a nursing home pay privately (or with Medicare) when first admitted and eventually "spend down" to Medicaid. Recently, more people have received services in their homes rather than in nursing homes. As a result of policy changes made by the Governor and the legislature, the number of people receiving state funded or Medicaid services at home increased substantially (by 64%) from 1995 to 2001 while the number of people served in nursing homes declined.<sup>8</sup>

One of the major factors contributing to out of pocket spending for health care, particularly for people who need long-term care services is the cost of prescription drugs. One of five people over age 50 recently reported difficulty paying for prescription drug costs in the last year.<sup>9</sup>

## **What Role do Family Caregivers Play in Providing Long-Term Care?**

Family members and other informal caregivers are the backbone of the long-term care system.<sup>10</sup> It is estimated that 75% of home care is provided by family and friends.<sup>11</sup> A survey in 1997, found that one in four households in the U.S. was involved in helping to care for someone 50 years or older at some point in the prior year. The typical caregiver is a married woman in her mid-forties, providing an average of 18 hours/week of caregiving while working full-time. Almost thirty-one percent of caregivers take care of two or more people and the majority of caregivers are employed outside the home.<sup>12</sup>

A recent survey of Maine citizens found that almost half of the people surveyed reported routinely helping out an older family member. About 11% reported routinely taking time off from work to help an older family member and 60% reported that employers were supportive of the need to take time off to help an older family member.<sup>13</sup>

## **Do We Have Enough People to Work in Long-Term Care?**

While data on the extent of workforce shortages in Maine is limited, the indicators from state and national surveys place Maine on the list of states facing serious workforce issues. The long-term care workforce nationally and in Maine, consists primarily of direct care workers: nursing assistants, nursing aides, personal care attendants and home health aides. Nurses aides comprise 66% and 69% of the nursing staff in nursing homes and home health, respectively. A recent survey of Medicaid agencies and State Units on Aging found that 42 out of 50 states consider hiring and keeping direct care aides to be a major issue.

Direct care workers, including personal care and home health aides, is the seventh fastest growing occupation in the nation. The U.S. Department of Labor projects that employment growth for direct care workers will be double (36%) that of the projected growth in overall employment (15%). At the same time, nursing homes and home health agencies in Maine are reporting high vacancy and turnover rates. This has resulted in waiting lists for services due to worker shortages.

While the need for these workers grows, low wages, lack of benefits, difficult working conditions, limited opportunities for career advancement, and competition from other fields make it difficult to hire and keep enough qualified persons to meet the need. Pressures to increase wages and benefits for long-term care personnel translate into higher costs for Medicaid and Medicare.

## **What Are Others Recommending?**

Meeting the increased demand for and costs of long-term care will require a combination of public and private strategies.

The American Association of Retired Persons (AARP) supports a comprehensive reform of the long-term care system in this country and the establishment of a public long-term care program. According to AARP, financing for long-term care services should include "sources that are progressive, broadly based, stable and capable of growing with enrollment." The government and individuals should share responsibility for any additional financing required to implement long-term care reforms. This would include the development of a publicly financed social insurance program that would form the base of long-term care financing whereby individuals would pay into the program and be entitled to benefits, including cash payment options.<sup>14</sup>

The National Council on the Aging (NCOA) public policy agenda states that long-term care needs of older people can be met cost effectively and with high quality through a strong commitment to a well-designed and coordinated system by both public and private sector. The NCOA supports long-term care reform that enables individuals to function at a high level and that enhances the independence and dignity of older people and people with disabilities. This includes the elimination of the current bias towards facility-based care and the provision of services in the least restrictive setting. It also includes meaningful choices for consumers, their families and other informal caregivers.

The National Alzheimer's Association recommends supporting family caregivers as an essential part of the solution as well as developing affordable long-term care options, making changes to the delivery system and ensuring quality care in the nation's nursing homes. Caregivers are the backbone of the long-term care system and they need help. Respite care, caregiver support programs, tax incentives and support for family caregivers who work are all potential solutions to the increased demand for long-term care services and the shortage of health care workers.<sup>15</sup>

Maine citizens want to stay independent. In a recent survey, people were asked the most important things the state could do to help older people stay independent. The responses included improving assisted living/home care, lowering taxes, improving public transportation and lowering the cost of prescription drugs.<sup>16</sup>

### **What are Some Solutions?**

Some of the solutions to maintaining a strong long-term care system while controlling costs include:

- \* Provide meaningful choices for people who need long-term care. People want to be able to choose the services and settings of care that best meet their needs. This includes affordable and accessible options for people as their needs change.
- \* Expand home and community based service options. People prefer to stay in their homes or community when they need long-term care services. Continued investment in community based options for people with chronic care needs will help to address the increased demand for services at a lower cost. This includes small assisted living options that provide individual units and more privacy than offered in traditional residential care facilities and nursing facilities.
- \* Utilize cost effective and equitable payment methods for long-term care services. People with chronic conditions have a variety of needs and the cost of care varies with the level of need. Equitable and efficient payment systems match payments with needs. Maine is currently a leader in the use of uniform assessments to determine the need for services and the use of reimbursement methods that align payments with needs. This approach provides an equitable method for allocating limited resources.
- \* Address the worker shortage. Addressing the worker shortage will require a many pronged approach. Some possible strategies include higher wages, promotion and advancement opportunities, recognition and respect, improved training, recruitment and orientation. Some programs also find that allowing people to hire and train their own staff is a cost effective way to broaden the pool of available workers while meeting the needs of consumers.

\* Support the role of caregivers. Family members and friends provide the largest source of support for people with chronic or long-term care needs. Programs that provide respite, training and support for informal caregivers will continue to be an important part of efforts to meet the increased need for long-term care services. Another option is to provide tax credits for family caregivers who are providing care without pay. Flexible employment policies such as a reduced work week or flexible hours that enable the caregiver to remain in the workforce are options that support the role of caregivers.

\* Increase other sources of revenue. Passage of a prescription drug benefit will reduce the high out of pocket costs that older people currently experience.

\* Improve the affordability of long-termcare insurance options. Few people can afford long-termcare insurance. Public-private programs to support long-termcare insurance provide another source of funding to support the needs of older people and people with disabilities.

### **For more information go to:**

Bureau of Maine's Elder and Adult Services <http://www.state.me.us/dhs/beas/>

American Association of Retired Persons <http://www.research.aarp.org/>

National Council on the Aging <http://www.ncoa.org/>

Alzheimer's Association <http://www.alz.org/>

Bureau of Health Professions, Health Resources and Services Administration, Department of Health and Human Services <http://bhpr.hrsa.gov/>

### **Notes**

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