



## **Testimony of Anne Tumlinson**

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### **U.S. House of Representatives Committee on Energy and Commerce Subcommittee on Health Hearing on Long-term Care Financing March 1, 2016**

Chairman Pitts, Ranking Member Green, and Members of the Committee, thank you for the opportunity to testify today about the financing and delivery of long-term care in the U.S. I greatly appreciate your focus on this issue, which has enormous implications for the future of American families.

In this testimony, I describe the way the current long-term services and supports (LTSS) financing system works, the major challenges we face, and recent work to address these challenges.

#### **Current LTSS Financing System**

The U.S. spends more than \$200 billion a year on LTSS for younger and older adults who need them. But these payments represent just one way in which we “finance” care for individuals with a need for LTSS.

We also finance this care by relying on close to \$500 billion in unpaid family care, by leaving needs unmet and through unnecessary hospitalizations and ER use.<sup>i</sup>

When we look at a point in time, we estimate there are about 6 million older adults who have a very severe need for LTSS.<sup>ii</sup> But, that point-in-time estimate does not convey *the unpredictable risk we all face for needing lengthy and expensive LTSS in our own old age, or the risk we face that someone in our family will need high levels of care for a long period of time.*

The Urban Institute projects that a fairly large portion of older adults – about 70 percent of everyone who lives to age 65 – will need help doing one of the basic activities that we take for granted, such as eating, bathing, or dressing.<sup>iii</sup> A smaller group – closer to 50 percent – will

develop an **even higher level of need** for help with *two or more* of these very basic activities or have severe cognitive impairment.<sup>iv</sup>

What I know from my work with families, from my research and from new research emerging from the Urban Institute is that when families face a high level of need, they tend to meet it first through their own resources – out-of-pocket payments and unpaid family care. Over time, if a person’s needs continue, the individual and family’s financial resources run out, as do emotional and physical resources, --- that is the point when we observe Medicaid contributing.

In its economic model, the Urban Institute projects that, of the individuals who have a high level of need, their care will cost about a quarter of a million dollars over their lifetime and ***a little over half of this amount will be paid for through out-of-pocket payments. Another third will come from Medicaid.***<sup>v</sup> The majority of Medicaid dollars spent on LTSS are spent for people who have longer periods of high need, such as five years or more.

What does not exist in our financing system is a significant role for insurance – private, public or otherwise. According to the Urban Institute, private insurance contributes about three percent to average lifetime expenditures.<sup>vi</sup>

## Challenges

The result is that our LTSS delivery system is about as under-financed as any system can be...meaning that there is a big gap between the care that individuals need and the money available to pay for it. Our system inadequately protects today’s older adult population from the financial devastation of a long-term disabling condition such as Alzheimer’s disease or stroke. It leaves children and adults with disabilities with few options for independence.

While our patchwork LTSS system **today** is failing families and individuals with need, this patchwork will fray to the point of unsustainability, as demographics change and the numbers of people with need rise. There are three ways it will fall apart.

- **Medicaid.** Contrary to some reports that LTSS is growing rapidly today, LTSS *is not a growing percentage of state Medicaid budgets.* Total Medicaid LTSS increased 3.4 percent in FY 2013 from \$141 billion in FY 2012. Average annual growth in the three-year period including FY 2011 through FY 2013 was 1.6 percent, which is slower than historical averages. LTSS was 34 percent of total Medicaid spending for each of the three years 2011, 2012, 2013, which is the lowest percentage it has been in almost 20 years.<sup>vii</sup>

But, as demographics change and more people need Medicaid-financed LTSS, state Medicaid programs will be forced to either dramatically increase total spending or to reduce the amount of money they spend on each person with need, which will impact access and quality.

- **Caregivers and Families.** We know today that gaps in financing are filled by unpaid caregiving, and that this has a huge impact on their financial, emotional and physical well-being. But, as the number of available unpaid caregivers decreases relative to the people with need, families will face untenable choices between economic productivity, financial stability, childcare, and eldercare. When the number of working-age individuals in this country declines as a percentage of adults age 85 and older, the country will no longer be able to sustain shifting so much of the financing burden onto unpaid family caregivers, who are very often women.
- **Care Delivery Innovation.** Current trends suggest that the vast majority of even the frailest older adults will live in a conventional, single-family dwelling. But, so far the market has largely failed to deliver services in a manner that meets the needs of frail older adults living at home. In fact, evidence suggests that it is dangerous to live at home if you are a frail older adult – you are more likely to experience adverse events related to unmet needs and you are more likely to use expensive health care. Even relatively high incomes individuals report to me that they have trouble finding and buying services that match their needs and are of good quality.

Our inadequate delivery system is a product of an inadequate financing system. Without a new and reliable source of financing, I believe we will fail to attract capital necessary to invent and innovate the delivery system we need in the future.

## Solutions

We have unfinanced need today and we will have even more in the future.

In an effort to evaluate a broad array of options for financing future need, The SCAN Foundation, Leading Age, and AARP jointly funded research by the Urban Institute and Milliman, Inc., which analyzed three basic insurance approaches. The first would provide coverage from the inception of high need through end of life (comprehensive). The second would provide coverage from the inception of high need through two years (front-end). And, the third would provide coverage starting after two years of need and continuing through end of life (catastrophic). Each of these is then further evaluated in scenarios assuming full participation and voluntary take-up.

The modeling work allowed us to compare different designs across consistent measures, such as likely participation rates, affordability, estimated out-of-pocket spending, and the effect on Medicaid spending.<sup>2-4</sup>

Policy groups -- The Bipartisan Policy Center, the Long-Term Care Financing Collaborative and Leading Age -- who helped develop technical specifications for the modeling have subsequently released policy recommendations in February 2016, building largely from the modeling work. These reports as well as the underlying Urban Institute and Milliman research can be accessed at [The SCAN Foundation's website](#).

Several common themes emerged from the research and the groups' work.

- *Defining the Problem.* Older adults and their families are unprepared for the risk of needing LTCLTSS; both in terms of high out-of-pocket spending and the resulting need for Medicaid. The reports recognize the significant role of unpaid family care, the dominance of out-of-pocket costs in financing covering the average spending over a lifetime, and evidence of unmet need as indicative of a system that will be unsustainable as support need rises.
- *Multi-Pronged Solution.* Increasing insurance-based coverage will require multiple solutions, utilizing the strengths of both the private and public sectors.
- *Private Market Solutions.* The solution set should include reforms to the private insurance marketplace to provide lower priced policies for the purpose of insuring against the risk of needing a high level of LTSS over a relatively short period of time.
- *Public Catastrophic Coverage.* The solution set should include insurance specifically designed to protect against the risk of high LTSS need that occurs over long periods of time, to at least consider further research into development of a catastrophic insurance program where all Americans would be covered.
- *Refocusing Medicaid's Role.* Medicaid should be strengthened as the safety net program, which has an important but smaller role in a refashioned, insurance-based LTC financing system.

Even within these options, there are significant budgetary implications and trade-offs. For example, in choosing to focus public insurance on catastrophic risk rather than front-end risk, many people who need insurance for high needs over short durations may not get it. Correcting for this problem through a comprehensive program design results in higher costs. And, it is important to remember that, because the system is currently under-financed, any change that insures a significant portion of the population with need will result in more overall spending rather than less.

The researchers and the groups issuing recommendations would all agree that this is a very hard problem and we have a great deal more work to do. But they and many others recognize that we cannot afford to give up.

## Endnotes

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<sup>i</sup> *Valuing the Invaluable: 2015 Update.* Susan C. Reinhard, Lynn Friss Feinberg, Rita Choula, and Ari Houser, AARP Public Policy Institute, July, 2015.

<sup>ii</sup> *Microsimulation Analysis of Financing Options for Long-Term Services and Supports,* Melissa M. Favreault and Richard W. Johnson, The Urban Institute, November 2015.

<sup>iii</sup> Financing Options for LTSS, Rich Johnson (Urban Institute) Presentation, January 27, 2016

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<sup>iv</sup> *Long-Term Services and Supports for Older Americans: Risks and Financing Research Brief*, Melissa Favreault, Urban Institute and Judith Dey, DHHS Office of the Assistant Secretary for Planning and Evaluation, Initially published July 2015 and revised February 2016.

<sup>v</sup> Favreault and Dey 2015

<sup>vi</sup> Favreault and Dey 2015

<sup>vii</sup> *Medicaid Expenditures for Long-Term Supports and Services (LTSS) in 2013: Home and Community-Based Expenditures were a Majority of LTSS Spending*. Steve Eiken, Kate Sredl, Brian Burwell, Paul Saucier, Truven Health Analytics, June 30, 2015