LONG-TERM CARE FINANCING

To Achieve Significant Change, A Functional National Approach Is Needed

BY DAVID DURENBERGER & DALE THOMPSON

The great debate of the 2000 presidential primary and general election revolved around candidates' plans to make significant changes to the tax and Social Security systems that have evolved in America over the last 65 years. Both the Democratic and Republican presidential candidates committed to an income tax cut and major reforms of Medicare and Social Security. Reformation of these two great national entitlement programs is being driven by the increasing cost of quality of life for a growing number of people with disabilities caused by age, chronic illness, accident, or development. This situation presents Congress and the president with an unprecedented opportunity: To commit to reforming our nation's income and health security policies and closing the gap for the 38.7 million uninsured individuals and the 94% of Americans without insurance for long-term care. Many advocates for long-term care financing reform and experts in health and retirement security see the reform debates surrounding Medicare and Social Security as important opportunities to interject long-term care financing reform into the growing health/retirement security debate.

Mr. Durenberger is chairman, Citizens For Long Term Care, and a former United States senator (R-MN, 1978-1995); Mr. Thompson is executive vice president, Benedictine Health Systems, and vice chair, Citizens For Long Term Care.

LONG-TERM CARE IN THE ENTITLEMENT REFORM DEBATE

Life's most critical hazards are those that unexpectedly reduce sources of income, significantly strain financial security, or greatly affect health. What has emerged to help families protect their financial security is a base of social insurance upon which private insurance and publicly encouraged deferred compensation arrangements have been built. For most people, financial security is principally derived from earnings and then Social Security, Medicare, and employer-provided pensions and benefits, all of which seek to help protect individuals and families from unexpected risks associated with health or loss of income. These benefits, as well as other savings mechanisms, are administered through public programs supported by tax dollars and are, in a sense, social insurance. Most of this structure is for workers and their dependents; however, a safety net of public assistance exists, both for those workers who were unable to adequately save or acquire insurance and for those who did not or could not work. The safety net of public assistance has become the default financing system for long-term care.

Long-term care has never been factored into our national social insurance programs as a possible threat to financial security. When Social Security and Medicare were established, long-term care as we know it did not exist. People in need of support often received care from a family member or were institutionalized in state and local "homes," "schools," "institutes," or other large facilities where medical technology did little to enhance the quality or increase the longevity of their lives. A fortunate few found institutional care in religious-sponsored institutions. Except among some religious sponsors, the professional long-term care industry as we know it had not developed, and the cost of care was significantly

lower. As we enter the 21st century, the continuum of care is significantly different—people live longer, better lives and have a much wider array of choices of how and where they want to receive care. Unfortunately, financing mechanisms have not kept pace with the progress of care.

The emerging debate on entitlement reform presents the greatest opportunity to address long-term care financing since the Clinton administration undertook comprehensive health care reform in 1992. By including this issue, policymakers have a golden opportunity to do several beneficial things:

- Enhance the economic and health security of all Americans
- Restore function to a system that has become increasingly dysfunctional
- End the politics of Medicare, Medicare reimbursements, and Medicaid long-term care
- Deal with the "new uninsured"

Why does long-term care financing belong in the Medicare and Social Security debates? Think about Medicare, Medicaid, and Social Security. *Medicare and Medicaid are not health programs.* They simply provide financial access to health and medical services. They appear to be health programs because of the administered pricing system the government has chosen to use. This system has dictated practice, terms of access, and provider behavior since the inception of these programs. Medicare is an insurance program that finances care and in doing so helps preserve the economic security of our nation's elderly.

Is Social Security or Social Security disability insurance a health program? No. But people have used income from these programs to purchase prescription drugs, supplemental insurance, and long-term care services. As people get older and their needs evolve, Social Security and Medicare achieve the dual purpose of providing the resources to pay for health care needs and thereby helping to ensure their financial security. By providing a defined health benefit under Medicare and a defined contribution through Social Security, people have the ability to survey their needs and purchase additional protection if they believe such protections are warranted. Additionally, private insurance companies have the ability—based on the knowledge that the Medicare benefit is constant—to develop private financing mechanisms that supplement current benefits and are relatively inexpensive.

However, Medicaid, which finances a majority of all long-term care, does not act as an insurance program for long-term care. Rather, it is a financing program only after a certain economic floor has been breached. Neither a defined benefit nor a defined contribution exists upon which people can build to protect themselves. People must turn to the private insurance market early in life—most often before they are aware of the potential risk—to purchase a product most deny they will ever need. And although last two Congresses have debated the issue, currently no tax incentive exists for the purchase of long-term care insurance.

Private insurance, however, is not the right product for everyone, and not everyone is capable of qualifying for long-term care. As a result, we must begin to look at additional financing mechanisms to assist individuals and families who help care for loved ones.

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The Framework for Reform

In July 2000, Citizens For Long Term Care began a process of deliberation among nine large long-term care groups to try to establish a framework for long-term care financing reform that would be incorporated into our national economic security system through a program of private and social insurance. The groups involved represented providers, insurers, consumer advocates for the elderly and disabled, and unionized workers—all of whom were committed to finding a better financing system.

In April 2001, Citizens For Long Term Care released a paper developed through this process of deliberation. *Defining Common Ground: Long Term Care Financing in 2001* built on the conclusions of the Pepper Commission and developed a framework that the diverse organizations in Citizens For Long Term Care could support. The major conclusions of the paper stated:

> Citizens For Long Term Care agrees that there must be a new social insurance benefit that finances a minimum floor of financial protection combined with a program of incentives for the early acquisition of private insurance. The social insurance component would provide a new floor of protection for all based on functional need with appropriate eligibility and benefit level standards and requirements. Public assistance must be available to ensure that those whose needs exceed all other public and private resources are helped.

Building on these statements, Citizens For Long Term Care made a variety of conclusions that reinforce why financing reform needs to be included in the entitlement reform debate. Citizens statements include the following:

A new social insurance cash payment benefit, with appropriate eligibility and benefit level stan-

dards and requirements, must be based on the level of functional need and provide a minimum floor of protection in a way that is sufficiently flexible to best help disabled individuals and families meet their unique circumstances.

Citizens believes that such a benefit system could be built on the existing structures of either our Social Security or Medicare programs, thus avoiding the need to develop an entirely new program or infrastructure. The current Social Security disability insurance program is an example of a cash benefit program, which provides resources to people to help maintain economic security in times of disability. Citizens proposes a cash benefit based on functional disability so that individuals will receive assistance commensurate with their level of disability—in an effort to avoid the permanent impoverishment that often besets people born with developmental disabilities. Citizens also believes that a system that is as flexible as possible will help meet the different and changing needs of individuals and will also ensure appropriate consumer choice in settings across the continuum of care. Two people with the same level of functional need should receive the same level of assistance but be able to use that assistance differently.

To commit to developing a cash benefit system for long-term care financing that most logically fits within the social insurance system, Citizens recognized that portraying the size and scope of the long-term need is important so that we can estimate the cost of the issue. To do this, the Medicare system must first be reformed to more adequately cover chronic illness. Citizens states that:

> Medicare must also be reformed in ways that ensure more beneficiaries are able to either avoid or delay the onset of chronic and disabling conditions. In addition, Medicare must better define the difference between chronic health care and long-term care services so that the health needs of those with chronic conditions are better met.

By reforming Medicare to better address, manage, and avoid chronic illnesses, Citizens believes the possibility exists for a decreased utilization of expensive skilled nursing care. Moreover, because it currently does not adequately address chronic illness, Medicare forces many people into the long-term care system who otherwise do not belong there. This occurrence causes unnecessary use of limited long-term care services and dollars and inflates the cost of a solution. A Medicare system that treats chronic illnesses will reduce the strain on the long-term care system and will present an accurate snapshot of what a limited cash payment benefit will cost the federal government.

By transforming our current system to one that recognizes long-term care as an integral part of economic security, we will avoid marginalizing people when policy forces them to impoverish themselves and their families.

The Role of Values in Financing Reform

To truly overhaul long-term care financing, we will need to expand on and reinforce those values that the Catholic Health Association has long advanced. Among the defining values of Catholic health care are:

- Commitment to promote and defend the dignity of every human life
- Preference for poor or marginalized
- Health care that is holistic, including attention to the spiritual needs of the person
- Commitment to the common good
- Commitment to be responsible stewards of resources
- Commitment to offer health care as a service to those in need

By transforming our current system to one that recognizes long-term care as an integral part of economic security, we will avoid marginalizing people when policy forces them to impoverish themselves and their families. A financing system that is integrated into our economic security system will help provide the resources that allow people to access the necessary services where and when they need them, thus assisting people to serve mind, body, and spirit.

Finally, transforming our financing system will further Catholic health care's commitment to the common good. It will help providers and caregivers continue to deliver quality health care. It will help those in need access services without impoverishing themselves, and it will help society develop and deploy the resources to ensure the necessary care of our most fragile citizens.

No easy or inexpensive solution exists. Many people would like to ignore the problem and hope it goes away; unfortunately that will not happen. We can hope that advances or possible cures for chronic illnesses such as Alzheimer's or Parkinson's will dramatically reduce future long-term care needs, but people will always need long-term care for accidents or developmental and age-related disabilities. By recognizing the need to discuss long-term care in the context of the developing entitlement reform debates, we hope to make Medicare more responsive to chronic illnesses to better define the long-term care system and give policymakers a better defined need that must be filled.

With a better defined long-term care system, policymakers can develop a limited social insurance benefit that will work in conjunction with tax incentives for private financing mechanisms to provide the necessary coverage. When and if this occurs, long-term care financing will be fully integrated into our national economic and retirement security system. □

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