

**Public and Private Long-Term Care Financing:  
Options for Minnesota**

**Summary of Report**

**Briefing  
by Department of Human Services  
for**

**House Health Policy and Finance Committee  
Fran Bradley, Chair**

**February 16, 2005**

**Complete report is available on the DHS website at  
[http://www.dhs.state.mn.us/main/groups/aging/documents/pub/dhs\\_id\\_025734.hcsp](http://www.dhs.state.mn.us/main/groups/aging/documents/pub/dhs_id_025734.hcsp)**

# Public and Private Financing of Long-Term Care in Minnesota

## Summary of Legislative Report

### February 2005

---

#### About the report

The report examines the issue of financing long-term care<sup>1</sup> in the future as the number of older Minnesotans that need long-term care dramatically increases. It describes a variety of public and private financing options that may have some potential for addressing this critical issue, and offers recommendations to the State of Minnesota for actions that should be taken to prepare for these long-term care challenges.

The 2003 Minnesota Legislature called for a study of long-term care financing. It required that the Department of Human Services complete a report that included a new mix of public and private approaches for financing long-term care, and analysis of four options mentioned specifically in legislation.

The study was broadened to include nine different options analyzed for their potential to maximize private dollars in long-term care and minimize Medicaid liabilities. The options include five insurance options, two options that borrow money, and two that use savings. (Retirement income from all sources including public and private pensions and savings are assumed to be available for long-term care, in addition to the options individuals can use to specifically cover their long-term care needs.)

---

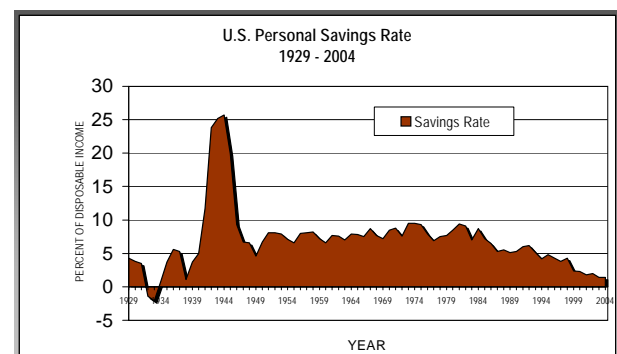
<sup>1</sup> Long-term care is defined as “assistance given over a sustained period of time to people who are experiencing long-term disabilities in functioning because of a disability.” (*Ladd, Kane, Kane, 2000*). For purposes of this report, long-term care refers to care provided in all settings, including homes, apartments, residential settings and nursing homes. While the options are analyzed from the perspective of the elderly, many of the options may be relevant to younger individuals who need long-term care services.

The state contracted with the University of Minnesota’s State Health Access Data Assistance Center (SHADAC) to complete more detailed policy and fiscal analysis of each of the options listed in the legislation. This analysis is not yet complete but will be submitted to the Legislature as soon it is available, by March 2005.

#### Why is this issue important?

In 2011, just six years from now, the baby boom generation will begin to turn 65, and as they grow old, many predict that providing long-term care for this large group of older people will quickly become one of the state’s most critical issues. The sheer numbers of people needing and eligible for publicly funded long-term care by 2030 could overwhelm the state budget. Below are some of the factors contributing to this problem.

- The U.S. personal savings rate in 2004 was 1.2 percent, the lowest since the Depression, leaving many individuals with few personal resources to pay for long-term care.

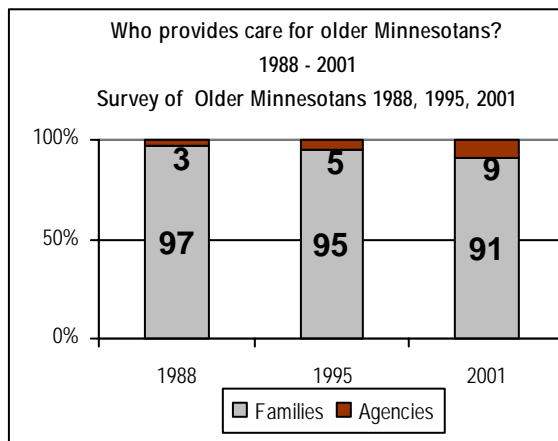


- As many as 45 percent of the state’s future elderly (the baby boom generation) may have inadequate retirement income to pay for health and long-term care costs.
- The number of individuals needing long-term care will triple between 2000 and

**Public and Private Financing of Long-Term Care in Minnesota**  
**Summary of Legislative Report**  
**February 2005**

2050. This increase assumes a *continuing decline* in elderly disability rates. If these rates begin to increase (and they are going up in the under-65 age group), even more individuals will need long-term care.

- The vast majority of long-term care for the elderly is provided by families, but the overall level is declining. The number of available “caregivers” is already very low in the state’s rural areas.



- In 2004, an estimated \$2.26 billion was spent on long-term care for the elderly in Minnesota: 40 percent was Medicaid, 33 percent was out-of-pocket expenses by the elderly and their families and 20 percent was paid by Medicare. About 7 percent came from other sources, including private insurance.
- When the dollar value of family caregiving is added to the total, the 2004 long-term care expenditures increase to an estimated \$6.84 billion. The value of family care, about \$4.58 billion, far outweighs the other sources, representing two-thirds of the total expenditures.
- If the number of disabled elderly grows faster than it has in the past, is coupled with reductions in the amount of family care, *and* if the percent of elderly with inadequate means to pay for long-term

care grows, the total demand for Medicaid funding for long-term care could rise to unsustainable levels.

**Review of private financing options**

The report describes each of nine financing options that were reviewed during the study for their potential to help individuals pay for their own long-term care and make them less likely to turn to Medicaid for coverage. The options use insurance, borrowing or savings to cover long-term care costs.

The insurance options all include payment of premiums for protection against the risk of larger long-term care costs, with benefits paid or provided if policyholders become eligible for services. A chief advantage of the insurance options is the ability to pool the risk of long-term care. The Partnership program also protects some assets from Medicaid spend down if private insurance is exhausted and Medicaid is utilized, and is thought to expand the long-term care insurance market.

Two options that borrow money were studied. These options have somewhat higher costs than insurance because of the interest rates that are charged (as in all loans). Unlike insurance, where people may pay premiums for years to protect themselves from a risk that may or may not occur, the options that borrow money are used only if and when money to pay long-term care costs is needed.

Two savings options were also studied. Both options provide the flexibility of cash that can be used to pay for long-term care in any way the individual wishes. In the CarePlus option (enacted by the Hawaii Legislature in 2003 but vetoed by the new governor), if implemented as designed, participants would include all residents of a state who file income tax. It is the least expensive per person (\$120/year) of all the options because the long-term care risk

**Public and Private Financing of Long-Term Care in Minnesota**  
**Summary of Legislative Report**  
**February 2005**

---

is spread across the whole population and the program pays a somewhat lower per day benefit. The private saving option, the long-term care annuity, probably requires the largest investment of any of the options, because it includes an immediate annuity combined with long-term care coverage that pays additional income if long-term care is needed.

### Recommendations

There is no “silver bullet” or one option that is the answer to the private financing of long-term care. Because of differing individual circumstances, nearly all the options reviewed in this study have some potential to address the issue and increase the use of private dollars for long-term care. Of the nine, only one – mandating nursing home coverage in Medicare supplemental products – is not supported as a viable option.

### New mix of public and private approaches

Given the demographic and economic realities, many are concerned about the future pressure on Medicaid to pay the long-term care costs for an ever larger proportion of the elderly population. To address this scenario, a new mix of public and private approaches must be utilized.

On the financing issues, specifically:

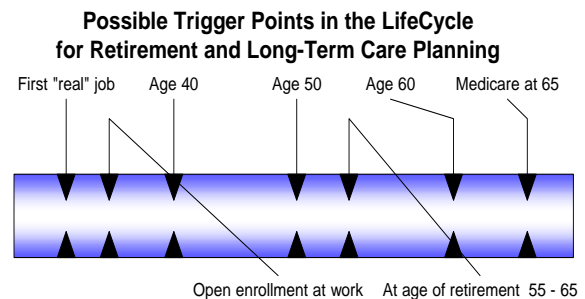
1. Tighten up asset transfer and estate recovery.
2. Provide incentives for private payment of long-term care – both through more public information about the options and financial incentives that achieve the state’s goals.
3. For the long-term, rethink and restructure the public and private responsibility in long-term care, perhaps similar to how the Partnership concept works.

Other essential policies include:

4. Support family caregiving. For every percent that family care declines, it can cost the public sector \$30 million per year.
5. Create age-friendly communities that provide the essential supports that help frail elderly remain in their homes longer.
6. Prevent or delay the disabilities that cause long-term care needs, and improve management of chronic disease for all ages.

### Every worker must have retirement and long-term care plans

We spend more time planning summer vacations than we do planning our retirement, which can last 30 years or more. Retirement planning must be integrated into and become a normal part of decisions workers make about their benefits and their future.



1. Work with a broad coalition of employers, employees, and those that develop and market long-term care products to develop and implement a strategic plan to ensure Minnesotans have retirement and long-term care plans.
2. Seek funding in partnership with others to create a Minnesota Center for Retirement Security and Wellness to work with Minnesota employers on retirement, health and insurance benefits to support our state’s aging workforce, and to expand retirement and long-term care planning.

**Public and Private Financing of Long-Term Care in Minnesota**  
**Summary of Legislative Report**  
**February 2005**

**Long-Term Care Financing Options: Pros, Cons and Recommendations**

| Option   | Pros   | Cons  | Recommendations   |
|--|--|---|---|
| 1. Long-term care insurance (LTCI)                               | <ul style="list-style-type: none"> <li>• Most recognized and utilized option</li> <li>• Pools the risk of LTC</li> <li>• Targeted specifically at LTC</li> </ul>   | <ul style="list-style-type: none"> <li>• Only one of many risks that younger people must address, and seen as lower priority</li> <li>• Must be purchased before needed</li> </ul>  | <ul style="list-style-type: none"> <li>• Ensure comprehensive consumer protection measures.</li> <li>• Follow up on employer interest in distributing information on LTC.</li> <li>• Evaluate feasibility of expanding current state LTCI program to all public employees.</li> </ul> |
| 2. Partnership for long-term care                                | <ul style="list-style-type: none"> <li>• Clarifies and sets level of individual expenditure for LTC and once met, offers “back-end” coverage of remaining LTC costs through Medicaid</li> <li>• Increases consumer protections by setting standards for LTCI policies</li> </ul> | <ul style="list-style-type: none"> <li>• Requires Congressional action to allow more states to establish program</li> <li>• Medicaid savings unclear (how many Partnership members would have purchased LTCI anyway, and if they would have used Medicaid)</li> </ul> | <ul style="list-style-type: none"> <li>• Monitor efforts at the federal level to eliminate prohibition on new state programs.</li> <li>• Study possibility of broadening concept of partnership to allow other LTC expenditures to count toward asset protection.</li> </ul>          |
| 3. Nursing home care into Medicare-related coverage              | <ul style="list-style-type: none"> <li>• Ideally, this would expand number of seniors with some coverage for nursing home care</li> </ul>  | <ul style="list-style-type: none"> <li>• Would damage the Medigap market by making premiums unaffordable for most current policyholders</li> </ul>  | <ul style="list-style-type: none"> <li>• Do not mandate this option.</li> <li>• Medicare plans should be allowed to offer LTC benefits if they see a market for this as Medicare reform becomes clearer.</li> </ul>   |
| 4. Health insurance options that include long-term care coverage | <ul style="list-style-type: none"> <li>• Only option that can address the conditions that cause LTC need</li> <li>• Public sector options use this model to improve chronic care management</li> </ul>   | <ul style="list-style-type: none"> <li>• No options now available in Minnesota for general Medicare market</li> </ul>   | <ul style="list-style-type: none"> <li>• Work with health plans to explore how integrated acute and LTC could be made more available to pre-Medicaid elderly and the general Medicare population.</li> </ul>  |
| 5. Life insurance options that include long-term care coverage   | <ul style="list-style-type: none"> <li>• Permanent insurance option provides multiple uses through one vehicle—life insurance, LTC coverage, possible loan/savings</li> </ul>  | <ul style="list-style-type: none"> <li>• LTC coverage more limited than what is available through LTCI or health insurance</li> </ul>   | <ul style="list-style-type: none"> <li>• Encourage development of linked benefit products that provide both life and LTCI.</li> </ul>   |
| 6. Reverse mortgages   | <ul style="list-style-type: none"> <li>• This option can be accessed by nearly all elderly individuals 62+ because of high homeownership rates</li> </ul>  | <ul style="list-style-type: none"> <li>• Relatively expensive because of the fees and cost of mortgage and annuity</li> </ul>   | <ul style="list-style-type: none"> <li>• Explore impact of state discount of fees if money is used for LTC costs.</li> </ul>  |
| 7. Family loan or line of credit                                 | <ul style="list-style-type: none"> <li>• Most immediate source of money to pay for LTC</li> <li>• Only used if and when needed</li> </ul>  | <ul style="list-style-type: none"> <li>• Increases debt of adult children especially if proceeds from estate are not available to help repay loan</li> </ul>  | <ul style="list-style-type: none"> <li>• This type of program should be initiated in Minnesota and monitored to see how it might fit into a comprehensive family support strategy.</li> </ul>   |
| 8. Universal public savings plan                                 | <ul style="list-style-type: none"> <li>• Most inexpensive option per person because it spread the costs and risk across all taxpayers in state</li> </ul>  | <ul style="list-style-type: none"> <li>• Provides only one year of benefits and those covered may not take steps to provide additional coverage</li> </ul>  | <ul style="list-style-type: none"> <li>• Monitor efforts by other states to review or implement this model.</li> </ul>  |
| 9. Long-term care annuity  | <ul style="list-style-type: none"> <li>• Combines risk of long life with LTC risk</li> </ul>   | <ul style="list-style-type: none"> <li>• Current products require substantial investment</li> </ul>   | <ul style="list-style-type: none"> <li>• Encourage additional development of these products at a more affordable price.</li> </ul>  |