



## A Guide to Long-Term Care for State Policy Makers

### **BUILDING PRIVATE LONG-TERM CARE FINANCING OPTIONS**

Public financing for long-term care (LTC) services and supports for the elderly and other adults with disabilities comes mainly from the Medicaid program. Although the federal and state governments jointly finance the program, rising Medicaid costs are affecting many state budgets.

In FY 2005, Medicaid long-term care expenditures totaled \$94.5 billion, which was 31.5 percent of total Medicaid spending of \$300.3 billion. Institutional care accounted for \$59.3 billion (65.3 percent of LTC Medicaid spending, and home and community-based services accounted for \$35.2 billion (34.7 percent).

As baby boomers age, state officials fear that growing numbers of elders will increase the pressure on state budgets for long-term care. Surveys of older Americans consistently show that many are not knowledgeable about public financing of long-term care costs and often mistakenly believe Medicare covers many long-term care services, such as nursing home care.<sup>1</sup> Few older Americans have made financial plans for possible long-term care needs.

For these reasons, the U.S. Administration on Aging and the U.S. Centers for Medicare and Medicaid Services have collaborated with states on a “Own Your Future” campaign to increase consumer awareness about long-term care and to stimulate consumer planning for future LTC needs. As of March 2007, 15 states had signed up to participate.<sup>2</sup>

Government officials believe that if more Americans understand their potential need for LTC services as they age and plan in advance for that possibility, they will assume greater personal responsibility for financing their own care and be less likely to rely on publicly funded services. One example would be the purchase of private long-term care insurance.

In each participating Own Your Future state, a letter from the governor is sent to households with members between the ages of 45 and 70, explaining the campaign and encouraging consumers to request a Long-Term Care Planning Kit. Other campaign materials include state-specific information and resources.

Phase I of the campaign included five states—Arkansas, Idaho, Nevada, New Jersey and Virginia. Every household that received the initial mailing in January or February of 2005

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<sup>1</sup> The Medicare benefit for nursing home care pays only for a limited period of time for skilled nursing care following at least three days of hospitalization.

<sup>2</sup> Arkansas, Georgia, Idaho, Kansas, Maryland, Michigan, Nebraska, Nevada, New Jersey, Rhode Island, South Dakota, Tennessee, Texas, Virginia and Washington.



also received a follow-up postcard reminding them to order the planning kit if they had not already done so. These states also aired a television spot, with a personal introductory message from the governors in Idaho, Nevada and Virginia. Four of the five governors held press conferences to launch the campaign. In Virginia, Governor Warner sent an email message to all state employees, encouraging them to order the planning kit and reminding them of the state long-term care insurance benefit.

The total target market for Phase I was about 2.1 million households. In Phase II, almost 1.6 million households were targeted in Kansas, Maryland, Rhode Island and Washington, with mailings in February through June 2006. As of the end of March 2007, the response rate was 7.7 percent in the Phase I states was 7.7% and 6.34 percent in the Phase II states.

Phase III of the Own Your Future campaign was launched late in 2006 in Georgia, Michigan, Nebraska, South Dakota, Tennessee and Texas, with a total target population of about 7 million households.

Several states have begun adopting tax or other fiscal policies designed to persuade consumers to save for their later years and/or to purchase long-term care insurance. At least 22 states provide a credit or a deduction against state income tax for long-term care insurance premiums.

### **Public/Private Partnerships to Develop Low-Cost Housing**

Several demonstration housing projects for low-income frail elders, particularly in rural areas, are being developed through partnerships between states, nonprofit organizations such as NCB Capital Impact, and the Robert Wood Johnson Foundation as a funding source. One example is the “Coming Home” project, launched in 1992 to help states create the necessary public policies and programs to support housing with such services as affordable assisted living for low-income seniors. The project focuses on smaller communities where fewer affordable housing options are available.

In Arkansas, for example, a federal Real Choice Systems Change grant and NCB Capital Impact technical assistance helped the state to develop an analysis of county-by-county housing with services needs and resources and to expand the availability of affordable assisted living throughout the state. In California, NCB Capital Impact assisted the Department of Health Services develop and implement an Assisted Living Waiver Pilot project.

Another housing initiative that has brought together communities with nonprofit funding and technical assistance organizations is the Green House Project, which provides homes for six to 10 elders who require skilled nursing care. The homelike atmosphere of the Green House model provides privacy, autonomy and support, while fostering a more independent lifestyle for its residents. The project organizers hope that, with pre-development loans of up to \$125,000 from the RWJ Foundation and technical assistance from NCB Capital Impact, the Green House model can be replicated in at least 30 communities during the next five years.

## State Studies of Private Financing Options

### Minnesota

The Minnesota Legislature called for a study in 2003 of long-term care financing options, and required the Department of Human Services to complete a report that included a new mix of public and private approaches. After two years of work, the department issued a report that analyzed nine financing options that included long-term care insurance (including the use of medical assistance funds to subsidize the purchase of LTC insurance by individuals who would be unlikely to purchase it without a subsidy), the Partnership for Long-Term Care program, health insurance options that combine health and LTC coverage, and reverse mortgages.

The goal of Minnesota's planning efforts to rebalance its LTC system has been articulated as follows: "Older Minnesotans will receive the long-term services they need in their homes and communities, will be able to choose how they receive services, and will have more options for using their personal resources to pay for long-term care.

The Partnership program couples the purchase of long-term care insurance with eligibility for Medicaid coverage of LTC services. With the purchase of a partnership policy, a consumer who uses up the insurance benefit can become eligible for Medicaid coverage without having to exhausting his or her assets to qualify for such coverage.<sup>3</sup> The option for a state to create the program was made possible through the Deficit Reduction Act (DRA) of 2005, signed into law in February 2006. Minnesota estimates that the partnership program will save the state \$120 million to \$150 million by 2030.

Minnesota became one of the first states to take advantage of the DRA provision. The Minnesota Legislature approved a bill in July 2005 that allowed for a Partnership program in anticipation of the DRA. After the DRA was enacted, the Legislature brought the state into compliance with the new law (Minnesota Statutes 2006-256B.0571). The Minnesota State Plan Amendment was approved in November 2006, with an effective date retroactive to July 1, 2006. The program is being marketed in 2007.

A bill (SF 196) establishing a reverse mortgage incentive program was introduced in the 2007 legislative session in Minnesota, but failed to pass. With reverse mortgages, older homeowners can tap the equity of their homes to pay for needed home care services without having to sell the house and move. The amount borrowed through the reverse mortgage need not be repaid until the house is sold or the owner dies.

SF 196 offered a twist on the traditional reverse mortgage—it would operate like a partnership program. A person who used 24 months or \$15,000 in reverse mortgage payments for services and supports to maintain the person at home could qualify for Minnesota's state-funded Alternative Care program<sup>4</sup> without satisfying income and asset limits. The homeowner would have to be age 62 or older, obtain a reverse mortgage on a

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<sup>3</sup> Eligibility for Medicaid coverage requires very low assets; thus, people with assets over the limit must "spend down" or exhaust those resources to qualify for Medicaid.

<sup>4</sup> The alternative care program provides skilled nursing, case management, personal care assistants, home health aide services, transportation, adult day care, chore services, and other services and supports.

house worth \$156,000 or less, and have an income low enough that he or she would be eligible for Medicaid after a year in a nursing home.

### **Washington**

The Washington Legislature passed a bill (HB 1220) in 2005, creating the Long-Term Care Financing and Chronic Care Management Joint Task Force. The charge to the task force included reviewing "...efficient payment models that will sustain public funding of long-term care..." as well as the feasibility of private financing options.

The task force submitted a preliminary report to the Legislature in January 2007; with a final report due in June 2007. The draft recommendations included implementing an LTC Partnership Program and continuing to research the feasibility of a state long-term care social insurance system.

### **Nebraska**

The state enacted the Nebraska Long-Term Care Savings Plan Act (LB 965) in 2006, making taxpayers eligible to claim state income tax deductions related to long-term care. State residents can create long-term care health savings accounts (HSA). Withdrawals to pay for the LTC expenses of anyone age 65 or older or a disabled person who has a medical necessity are not taxed. Withdrawals to pay premiums on LTC insurance are also not taxed. Individuals must make contributions under a participation agreement approved by the state treasurer.

### **Issues to Consider**

- If the state is not participating in the Own Your Future campaign, what other means has it adopted to help the public understand the need for LTC planning?
- Have the aging and Medicaid agencies held town meetings or forums to highlight LTC issues and to gather input from the public on LTC needs and expectations?
- Has the state studied the state's demographics and economics and projected future public expenses for LTC?
- Has the state considered incentive programs to encourage the purchase of LTC insurance—such as tax deductions or credits against state taxes for policy premium costs or a state subsidy for premiums—or ways to encourage reverse mortgages that offer adequate protection for consumers?

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### **Resources**

Minnesota Department of Human Services website.  
<http://www.dhs.state.mn.us/hs/index.html>

Nebraska website. <http://www.hhs.state.ne.us/ags/lcplanning.htm>

U. S. Administration on Aging. National Clearinghouse for Long-Term Care Information.  
[http://www.longtermcare.gov/LTC/Main\\_Site/index.aspx](http://www.longtermcare.gov/LTC/Main_Site/index.aspx)

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