

# What's your plan?

Most people don't have long-term care insurance, a fact that could bankrupt both government and families. Here's a better plan.

by Eric B. Schnurer

If you've ever watched those TV commercials about the joys of growing old — like the one where seniors barrel down the road in a convertible while guzzling a nutritional supplement — you may have wondered whether there are any downsides to aging.

If so, you could — as I did — hit the Internet site of Americans for Long-Term Care Security ([www.ltcweb.org](http://www.ltcweb.org)). There you can click on your age, gender, and home state and learn the costs of the long-term care (LTC) you can expect over the remainder of your life to help you perform the daily tasks of living as you age, plus the odds that you'll require a nursing home stay. The figures for me (a 41-year-old male Pennsylvanian) came to nearly \$170,000 with a 30 percent chance of institutionalization.

Granted, this site is backed by the insurance industry, with an interest in scaring you silly. But the facts are that two in five Americans will require nursing home care at some point, more than half of them for at least a year — and a year in a nursing home now averages \$50,000. And that means that if you're thinking about the future tab for yourself, your spouse, and two parents or in-laws, you're looking at a bill far in excess of

the average house purchase in this country.


Of course, if you are thinking about this at all, you're in the distinct minority. Estimates are that 9 percent of the potential customers have actually bought LTC insurance. Surveys show that four out of ten Americans believe that Medicare will cover such expenses.

Unfortunately, it won't. Instead, Medicaid, the government health care program intended for the poor, has been stuck with the biggest tab for LTC, even though most beneficiaries aren't poor. Medicaid already spends nearly 40 percent of its budget to finance long-term care for the elderly, paying for two-thirds of all nursing home residents in the country. As these numbers grow, Medicaid could supplant Social Security and Medicare as the largest item in the federal budget. And grow they will: Over the next 40 years, the number of Americans in nursing homes will more than double. If Social Security and Medicare are taking on water, LTC costs threaten to become a governmental *Titanic*.

How did Medicaid, originally designed to provide medical care for poor families with children, become a back-door entitlement to long-term health care for middle class

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Over the next 40 years the number of Americans in nursing homes will double, with costs averaging \$50,000 a year. Already, Medicaid —a program designed for poor families with children — pays for two-thirds of all nursing home residents. It has become a backdoor middle-class entitlement.

“Real choice entails real responsibilities. In long-term care, this means ending the de facto entitlement program for people who don’t need government aid.”

families? Because Congress keeps raising Medicaid’s threshold of “poorness,” enabling many middle class Americans to sneak under the eligibility wire by transferring assets to relatives before they die. Nowadays, you have to be really rich and have a really bad lawyer not to be able to induce the public to pay for the LTC costs you didn’t think to plan for yourself.

It’s hard to imagine a less efficient or equitable way to deal with Americans’ growing demand for long-term health care. The alternative to Medicaid’s backdoor entitlement is private insurance — but who wants to buy a costly long-term health insurance policy if they think Medicaid will pick up their costs for free?

There’s a three-part answer to this dilemma. First, we must close the loopholes in Medicaid, making it difficult if not impossible for relatively well-to-do families to game a system meant for the poor and instead encourage all Americans, rich and poor alike, to care for themselves to the extent they can. Second, government can rectify market failures by investing in “public goods,” promoting greater availability of information, and stimulating demand for LTC insurance. Third, we must empower people to care for themselves by ensuring a more competitive market for long-term health care, making it easier for people to buy insurance and to pool their purchasing power to get better deals, and provide help to those who can’t in a way that enhances value for all. This would be part of an approach to government’s role that I call competition.gov.

Competition.gov says government will work better, and its programs will be better accepted, when people can voluntarily choose how much government they “buy.” But under competition.gov, not only will market competition encourage better government, government will also encourage better market competition: The more government polices the market by competing with it, the less it needs to do so by regulating it. Can government actually compete with the private sector? In many instances, it already does: Compare the price of express mail from the Post Office with that of private overnight services — or try to find an investment manager who will handle your money for the 2 percent administrative

overhead of the Social Security Administration.

Health insurance, like long-term care, offers another opportunity. Government can also make businesses compete harder by aggregating consumer power: The buying clout of the Federal Employees Health Benefits Plan (FEHBP) already drives better insurance deals for thousands of government employees — and could for others, as well.

Here are the steps we should take to create a comprehensive, public-private system of long-term health insurance for all Americans:

- Ask not what your country can do for you until you’ve first done what you can for yourself. All Americans must either buy long-term care insurance, or be prepared to spend down their assets before the public steps in to pay any of their bills.

- Real choice entails real responsibilities. In long-term care, this means ending the de facto entitlement program for people who don’t need government aid, didn’t provide for themselves but simply have good lawyers. Telling people the government will care for them anyway, even if they shirk their self-responsibility and game the system, cheats those who take care of themselves. Thus, people who do not buy insurance will have to pay their LTC bills out of their own pockets until they have completely spent down their assets. Gaming the system would be discouraged through recovery of any public LTC expenditures — plus a penalty — from the beneficiary’s estate and aggressive efforts to combat asset transfers to other family members.

- The government should work to lower long-term care costs, generally, by funding medical research and by restructuring its own health care programs to encourage long-term investments in prevention.

- Meanwhile, government can help empower everyone to take responsibility for insuring themselves through public education on long-term health care costs and risks, and better access to information, including consumer report cards on the quality of various LTC options, public and private.

- To facilitate that, and ensure that low-income workers have coverage as a “default,” workers should be allowed to pay LTC insur-

ance premiums through the payroll deduction system.

- And government ought to offer a competitively priced LTC policy of its own to spur competition and thus lower prices. The costs of insurance are currently too high in part because, in a sort of Catch-22, not enough people buy it to form an adequate pool, driving up the cost per head. Policies providing unlimited protection against high-end exposure are particularly hard to come by. The government could break this cycle by offering actuarially sound insurance policies priced to an expanded, mature market. By widening choices and spurring competition, government can help “bootstrap” the market to a higher level of output and efficiency.

- This government insurance would also ensure that the market stays competitive, massing buying power and market clout to drive better bargains for consumers — as with FEHBP — and economies-of-scale to offer consumers competitive options that would require private insurers to keep pace or lose business. Anyone could opt for the government insurance deal — but, unlike under a mandatory government program like Social Security or Medicare, they’d be free not to.

- Tax policy can provide incentive and assistance to middle class Americans to meet their own needs, while encouraging insurers to generate proper products. Washington should use tax credits to help people buy insurance rather than to help them defray out-of-pocket LTC costs, as the Clinton Administration has proposed. In addition, such credits should only be available for purchase of policies meeting minimum coverage standards, especially provision of unlimited, uncapped coverage to reduce those left exposed to the risk of impoverishment and the consequent need for Medicaid’s help. In this way, government would use the market’s “invisible hand” instead of the heavy hand of regulation, to spur socially responsible private behavior by both individuals and industry.

- Finally, the government would provide subsidies to those who need them. Lower-income families would be able to buy the government insurance for an income-adjust-

ed reduced rate, which would be facilitated by use of the existing payroll system — but they could receive a card or voucher allowing them to use the equivalent of their government “subsidy” to purchase private insurance coverage instead.

Medicaid, in short, would be refocused primarily on providing the poor with insurance coverage beforehand rather than inefficient care later, in a way that makes self-responsibility realistically affordable. This change would make Medicaid consistent with the middle class tax incentives proposed to shift emphasis from subsidizing care costs to subsidizing insurance purchase. Isn’t this kind of subsidy program still just another form of welfare? No, because it’s intended to foster a private market in long-term health insurance — and in ways that create benefits for all, not just the needy — rather than simply transferring wealth from one set of pockets to another. Bringing together more purchasing power helps everyone; this is compounded in insurance, where the “law of large numbers” basically makes costs per person lower the more people are in the pool. Even if we have to partially subsidize some, everybody benefits.

In competition.gov, everyone will choose their own level of government reliance — always with the option of private alternatives if they think they can do better. Everyone will assume primary responsibility for themselves — with society helping to the extent they actually need it, and even then with market empowerment not entitlements. And the government will aggregate public purchasing power and use its economies of scale to “keep the marketplace honest,” while also investing in the public goods and public functions that only government can provide, to help reduce costs and thereby make care more affordable for all. ■



**WHEN TO PLAN?** Young Americans, like this couple at a car dealership, need to start shopping for long-term care insurance while they’re healthy. Yet only 9 percent of the potential market has actually bought coverage. Most people erroneously believe their long-term care will be covered by Medicare or private insurance.

# Health care is back

by Mark J. Penn

As we enter the 21st century, health care has risen to the top of the American political agenda. In the primary races of both political parties, health care is a key topic and one of the most obvious ways to distinguish among the presidential candidates. Two of the biggest issues are the 44 million Americans without health insurance and the rising cost of our health care system.

In a poll of 500 registered voters conducted Dec. 19-20, 1999, for the DLC (margin of error +/- 4.4 percent), we examined people's satisfaction with their health care and with the health care system, and explored their support for some new solutions to the problems confronting the system. We found that people are eager for proposals that would give them more choice over their health plan, empower them with information on the quality of care and success rates of doctors and health plans, give people new opportunities to purchase health insurance, and make people responsible for purchasing insurance if it were made affordable.

## Some of our key findings:

- Americans are generally satisfied with their own doctors and health coverage.
- Of those who are not satisfied, more than half say they do not switch because it is the only or the best coverage their employers offer.
- But people strongly support reforms of the system to give *them* — instead of their employers or the government — more choice in selecting health coverage and to expand coverage as a way of keeping down per-person health care costs.
- Although a majority say they have enough information to choose a good health plan and doctor, three-quarters say that if the government required health plans to publish information about the quality of care they provide, people would use that information.
- Internet users, Generation Xers, and Wired Workers — people who frequently work on a computer and like working as part of a team — are the strongest supporters of expanding access to health care information.
- Universal coverage remains a popular idea. People support a combination of approaches — rather than a single program — to expand coverage to more Americans.
- Americans are willing to make their medical records available to doctors and researchers, with their privacy protected, if doing so would improve the quality of their care.
- The issue of long-term care needs more public discussion and education and is a prime area for reform.

*Mark J. Penn is the president of Penn, Schoen and Berland Associates, Inc., and the pollster to President Clinton. Research and polling assistance provided by Jeff Epstein.*

*Full results of this poll can be found at <http://www.dlc.org/blueprint/spring/00/poll.htm>.*