

**Testimony of
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on
Long-Term Care Insurance
before the
Senate Insurance and Banking Committee
in
Harrisburg, PA
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Chairman White, Chairman Stack and members of the Committee: Thank you for the invitation to be here today. On behalf of the Pennsylvania Health Care Association (PHCA), we appreciate the opportunity to discuss with you alternative ways in which Pennsylvanians can begin to take control of their own and their families' future long-term care needs. Unfortunately, to date, far too few Pennsylvanians have begun to address this critical issue.

I know you recognize PHCA's deep belief that how we care for the commonwealth's rapidly aging population promises to be one of our state's most pressing social and fiscal challenges, and how we deal with this will be a real measure of our humanity. Unfortunately, there is no "silver bullet" solution. The issues are complex, diverse and costly, and your leadership in examining these issues and exploring potential solutions is essential. We look forward to working with you.

PHCA is a statewide advocacy organization for Pennsylvania's elderly and disabled residents and their providers of care. Our mission is to ensure that those who need long-term care receive quality services in the most appropriate setting as they age. For many, services at home can be safely and cost effectively delivered. For others, a nursing home is the most appropriate setting for safe and cost-effective care.

We represent both for-profit and nonprofit providers who offer services that range from integrated retirement communities and multi-level care campuses to freestanding nursing homes, assisted living/personal care homes, and ancillary care/home-care enterprises. Overall, PHCA, along with our sister agency, the Center for Assisted Living Management, represents more than 326 long-term care and senior service providers that care for almost 38,000 elderly and disabled individuals.

As you know all too well, Pennsylvania has a lot at stake when it comes to issues affecting older residents. We are among the nation's oldest and most rapidly aging states. Our commonwealth ranks third nationally by percentage of population age 65 or older, behind Florida and West Virginia. About 2 million of our 12 million residents are age 65 or older, today. In the decades ahead, when we talk about the elderly in Pennsylvania, we will be among them, representing 25 percent of the commonwealth's population.

All of us have read about the wave of 80 million baby boomers beginning to turn 65 in 2011. An estimated 3.4 million of these baby boomers live in Pennsylvania --- almost 5 percent of our nation's total. Unless individuals, families and both the state and federal governments plan ahead, or come up with clear solutions, the fiscal tsunami will overrun us all.

This hearing will help to bring awareness to this issue, for the nation's long-term care system isn't plagued simply by financial constraints, but by public misconceptions, too.

For example, the National Commission for Quality Long-Term Care found 34 percent of Americans believe most long-term care is paid for by Medicare, 20 percent believe it is paid for by Medicaid, and 22 percent believe individuals and their families pay for most long-term care. Thirteen percent said they had no idea how long-term care is financed under the current system. Many think their needs will be met by existing health insurance or Social Security.

They're all wrong: Social Security doesn't; Medicare and other government health insurance programs won't; state Medicaid programs can't, as they are already stretched too thin; and basic insurance doesn't cover long-term care services. Perhaps it is because of these misconceptions that the Urban Institute found long-term care to be a leading cause of catastrophic out-of-pocket costs for families.

The fact that people are not planning ahead should be no surprise.

No one likes to think about getting older, facing chronic illness or becoming too frail to safely live on our own. But it happens, and when it does, more and more seniors and their families are finding themselves unprepared. Data show that only 35 percent of people 65 or older think they will need long-term care in the future, whereas 70 percent of those turning 65 this year will eventually require some form of long-term care.

Despite these facts, few people have insurance coverage against the high cost of their long-term care. That needs to change.

Last year, Pennsylvania joined the "Own Your Future" campaign sponsored by the U.S. Department of Health and Human Services. The Rendell administration is to be congratulated for moving forward on this initiative. The program is designed to help Americans take a more active role in planning for their future long-term care needs, with information on ways to finance care and facts that address widespread misconceptions about how much government will pay for that care.

Also, during the last legislative session, the General Assembly enacted the "Long-Term Care Partnership Program." This law provides incentives for the purchase of long-term care insurance by allowing residents to protect assets on a dollar-for-dollar basis. For example, the purchase of \$100,000 in long-term care coverage allows residents to keep \$100,000 in assets and still receive Medicaid if and when their insurance coverage runs out.

This program has the potential to help stabilize the financial condition of Pennsylvania's nursing homes, but currently only about 2-3 percent of individuals in nursing homes have long-term care insurance.

Unlike hospitals or doctors, where Medicaid patients account for only a small percentage of their revenue, nursing homes in Pennsylvania count on Medical Assistance for their very existence. Truly, two out of three Pennsylvania nursing home residents are on Medical Assistance. For every one of them, nursing homes are forced to absorb an average \$14-a-day loss. This is \$5,000 per year per Medical Assistance resident. Long-term care insurance could reduce the number of individuals on Medicaid and also, since the reimbursement from insurance is better than Medicaid, help offset the losses from Medicaid.

For many seniors, one of the best ways to prepare for care is through long-term care insurance, as this insurance provides coverage for a full range of services, including home care, adult day care, personal care home/assisted living and nursing homes. Not only does it give seniors and their families more options in choosing the long-term care venue of their choice, it can also help to safeguard hard-earned assets.

When purchasing insurance, consumers usually focus on premium. That's understandable. But long-term care insurance includes many other values that individuals may overlook. Many modern long-term care insurance policies include a benefit called "care coordination" that works with families to help them determine the best long-term care setting – home or facility-based – and how to manage it. Some policies actually build it into their process, assigning a "care coordinator" for each claim.

At PHCA, we are often asked: "Should everyone have long-term care insurance?" As you might imagine, there's no single rule of thumb for everyone to follow. Generally, financial experts say that unless you are poor enough to qualify for Medicaid, or wealthy enough to pay for your care as you do other bills, you should consider long-term care insurance.

We urge potential purchasers to compare policies and prices among insurance providers, as they can range greatly. It's also important to understand the rating system in Pennsylvania for insurance companies. Not all insurance companies are rated equally. And, we encourage consumers to buy a policy that covers in-home services as well as assisted living and nursing homes. This gives the consumer more options of finding the high-quality professional caregiver that's right for the individual at each stage of their life.

Clearly, individuals must carry a part of the responsibility for financing their own long-term care, and long-term care insurance is one way to do this; however, the problem of financing our nation's long-term care services is a problem much bigger than any one individual and goes to the role of state and federal governments. Clearly states can not do this alone as state governments can no longer sustain the growth in Medicaid long-term care expenditures alone. In many ways, financing our nation's future long-term care needs is a problem greater than financing our nation's acute health care needs.

In Pennsylvania, the administration and General Assembly have taken some steps. We believe, however, that more can, and should, be done at both the state and federal levels.

For example, we suggest the following for consideration:

- Pass Pennsylvania-specific legislation that would allow people to deduct the purchase of long-term care insurance “above-the-line” on their state tax forms --- that is, deduct it directly from their total income before taxes, thereby decreasing their tax bill in most cases. We believe this should also be done at the federal level, but we suggest starting with legislation here in Pennsylvania to permit this deduction or tax credit. Providing either a deduction or a tax credit would benefit the state in the long term by reducing Medicaid costs, and many states already provide this tax relief. Simultaneously, we continue to encourage federal legislators to enact legislation that would allow the same type of deduction or tax credit on federal taxes.
- Pass Pennsylvania and federal legislation that would provide limited tax credits to those (with incomes below a certain level) who provide services to family members with long-term care needs. This is akin to insurance in that it ensures someone is helping to pay the cost of care.
- Pass legislation that would easily allow individuals to access their life insurance for long-term care in the form of an accelerated death benefit. In 2001, 69 percent of American families had some form of life insurance; for many individuals, it may make some sense to convert at least a portion of this life insurance to pay for long-term care or to buy long-term care insurance. A few insurance companies allow this, but legislation might make this easier.
- Pass legislation that would expand the concept of reverse mortgages, which would allow people to use the equity in their homes to help pay for long-term care or long-term care insurance. A reverse mortgage lets you tap into your home equity, and you don’t have to pay back the loan for as long as you live there. Funds from a reverse mortgage could pay for renovations to make the home safer for an elderly loved one, for home health care, to provide family caregivers with funds for out-of-pocket expenses, or to purchase long-term care insurance.
- Work with the federal government to change the Erisa rules so long-term care insurance could be included in “cafeteria plans.” A cafeteria plan is a type of employee benefit plan offered in the United States pursuant to Section 125 of the Internal Revenue Code. Its name comes from the earliest such plans that allowed employees to choose between different types of benefits, similar to choosing food in a cafeteria. This would allow people to deduct their long-term care insurance premiums under cafeteria plans and flexible spending arrangements along with child care, health care, dental care, life insurance and disability. Currently, this isn’t permitted.
- Work with the federal government to establish a program that would grant individuals access to a program currently available only for federal employees that allows purchase of long-term care insurance at significantly reduced group rates.

- Work with our federal legislators to establish a new voluntary federal program, similar to Social Security, in which payroll deductions are deposited in a personal long-term care savings account. Perhaps this could be done at the state level.
- Finally, encourage, by educational programs, individuals to “catch-up” on their retirement plans to ensure important resources later in life. If an individual is older than 50, they may want to take advantage of “catch up” contributions to their 401K or IRA plans. By doing so, they can shelter additional contributions and build a larger nest egg. A certified financial advisor can help individuals understand how to best do while managing and protecting assets.

These are just a few ideas, and as noted, some will take a federal partnership or congressional action to achieve. The long-term care system today is far too complex, and the population we are trying to serve is far too diverse, for any single solution. Thus, when consensus is reached that the financing of long-term care is a national and state priority, the plan should ensure that consumers have more control and real involvement in planning for, obtaining and paying for long-term care.

It is important to note that several leading long-term care organizations --- the American Health Care Association (AHCA), the Alliance for Quality Nursing Home Care and the National Center for Assisted Living (NCAL) --- have outlined plans to bring greater private resources into the system, and their plans include many of the elements just noted.

The point of their plans and our proposals are clear: Government must play a role, but new government programs are not the only answer. Government can't afford to take on much more.

In conclusion, I just want to re-emphasize that there is no single solution. Paying for long-term care is not a one-size-fits-all approach. It's not just about long-term care insurance or reverse mortgages. It's about making available a variety of options that fit individual needs. While PHCA believes the state and federal governments have an important role to play, we also believe we need to study new market-based mechanisms that enable individuals to take responsibility for their own long-term care future.

Especially in this tough economic environment, too many people put off decisions about long-term care until the last moment. However, putting these decisions off until long-term care is necessary often causes serious financial strain, even heartache. It doesn't have to be that way. There are steps each of us can take to ensure greater choice in long-term care options when they become necessary, and to protect our assets --- but only if we plan ahead carefully.

Chairman White, Chairman Stack and members of the Committee: Thank you for your time. I would be happy to answer any questions you have at this time.

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