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Statement to the Medicaid Commission
By
American Association of Homes and
Services for the Aging
March 14, 2006

The American Association of Homes and Services for the Aging (AAHSA) appreciates this opportunity to submit a statement to the Medicaid Commission. We look forward to providing expanded testimony from our members at your next meeting.

AAHSA members serve two million people every day through mission-driven, not-for-profit organizations dedicated to providing the services people need, when they need them, in the place they call home. Our members offer the continuum of aging services: senior housing, assisted living residences, continuing care retirement communities, nursing homes, and home and community based programs. AAHSA's commitment is to create the future of aging services through quality people can trust.

Medicaid is the single most important public source of financing for long-term care. Medicaid covers the cost of essential health services for the frailest and most vulnerable older Americans and people with disabilities. Approximately 66% of nursing home residents have their care covered by the program, as do 35% of those receiving home and community-based services and a large percentage of senior housing residents. If they were to lose this coverage, they would have few other resources to obtain the care they need.

In the long-term care field, Medicaid serves as a stable but inadequate source of reimbursement for the care of those who have exhausted their own financial resources. What we hope the Commission will consider is that costs of care do not disappear if they are not fully covered by Medicaid, and a broader examination of the long-term care financing package is essential to developing a rational and efficient system.

Medicaid financing for nursing homes: Federal law mandates that nursing homes provide the level of services that residents need to achieve and maintain their highest practicable level of functioning. Nursing homes have to spend whatever it costs to provide this level of care. If states reimburse nursing homes at less than the cost of care provided, as they generally do, the shortfall must be made up from other sources. What are those sources?

> Medicare: Every year the Medicare Payment Advisory Commission (MedPAC) reports to Congress that nursing homes in general are being well paid by Medicare for the costs of care covered by that program. However, higher Medicare payments not only must pay for the heavy care needs of SNF patients, but in many cases they subsidize inadequate Medicaid payments as well. MedPAC's recommendations do not take this into account or that, as MedPAC reported on March 1, margins for non-profits are approaching zero.

Thus, non-profit nursing homes are rapidly losing the ability to cross-subsidize their Medicaid losses with Medicare.

Private pay: Nursing homes frequently are forced to raise rates for privately-paying residents above the level they otherwise would have to pay in order to counteract the inadequate reimbursement facilities receive for the care of residents covered by Medicaid. Our private pay residents have already invested in their future care – they paid their taxes and saved their money; many have purchased long term care insurance and sold their homes. We want to support them, not force them to support an inadequate publicly-funded system.

Charity: AAHSA members, as not-for-profits obligated to provide charitable care to the best of their ability to those in need, do substantial fundraising in their communities to provide charitable care, but contributions are not always sufficient to offset unmet costs.

Long-term care insurance: Individuals who are able to do so must be encouraged to plan for their own long-term care so that Medicaid can continue to serve as a safety net for those with low incomes and modest means. We support making long term care insurance more affordable and attractive through such mechanisms as the expanded state long term care partnership programs and enhanced tax incentives through employer-based cafeteria and flexible spending plans, as well as encouraging insurers to develop more appealing products. However, experience with private long term care insurance shows limits on the ability to cover a substantial proportion of the non-Medicaid population. For example, it is difficult for people to know what they will need many years in the future and to reconcile that with available products, much less pay for it. Even with tax subsidies the cost is prohibitive for many and underwriting requirements needed to make insurance viable for insurers excludes that 10-30% of the population with disabling conditions. Long term care insurance will be unavailable or beyond the reach of many of those who will need it. Enrolling large numbers in plans would require that it be an employee benefit. Unfortunately, the trend in employer-paid benefits is downward, rather than upward.

Other financing mechanisms: Many other financing tools are under discussion, including reverse mortgages, HSA-type accounts and longevity insurance. Each has its place, and as long as there is appropriate consumer protection, we support the ability of persons who have the means to do so to take advantage of these products. However, these are new and untested, and some (such as reverse mortgages) may be viable only under current economic conditions.

We need to be open to many options, including broader national approaches such as the CLASS Act and other national insurance programs as models for a more effective, better-financed system.

Rebalancing Medicaid's long-term care coverage: Because Medicaid is primarily a health care program, long term care developed an excessively medical and institutional bias that is difficult to overcome. However, federal and state policy already is moving in the direction of covering more services provided in home and community based settings, rather than in nursing homes. This trend reflects strong consumer preferences, the Supreme Court's decision in the *Olmstead* case, and states' efforts to ensure that services are provided in the most appropriate setting for the consumer. We support giving long-term care consumers more options as to where and how they will receive the services they need.

State experiences already show that rebalancing long term care systems - increasing the use of home and community based services and supports and decreasing institutional care - can moderate the growth of long term care costs, but not eliminate that growth. Simply expanding the population served to include lower-cost services, while maintaining the same inadequate rates for the higher cost services, could make the financial picture even bleaker. Expanding home and community based services requires a full range of programs that include housing, home care/in-home services such as homemaker and personal care; medical and social adult day services; senior centers; congregate and home delivered meals; transportation; respite; family caregiver supports and services; case management; and skilled home health care. Most often a combination of these services is needed to keep a frail elderly person in the community. Unless essential housing and supportive services are available and affordable, frail seniors (or, indeed, the younger disabled) will not be able to avoid premature entry into a nursing home or transition successfully from a nursing home to a community setting.

The cross-cutting nature of financing a rebalanced system is beyond the charge of this Commission; we raise this issue because the Commission needs to understand that financing the medical needs of the disabled and frail elderly in the community will fail if the support system is inadequate. We urge the Commission to serve as a catalyst for discussions with those federal and state policy makers that oversee housing and supportive services programs to overcome some of the obstacles to coordinating affordable housing with services that enable people to age in place.

Conclusion: The aging of the baby boom generation, whose oldest members will reach age 65 five short years from now, demands the development of an integrated, healthy, ethical and affordable system of long-term care. We look forward to working with the Commission to overcome the current challenges and prepare the kind of aging services system that we would all hope to have available as we grow old.

For more information, contact:
Marsha R. Greenfield, Senior Legislative Counsel
mgreenfield@aahsa.org
202-508-9488