Backgrounder

U.S. Rep. Adam Putnam (Fla.-12)

Central Florida: Hillsborough, Osceola and Polk counties

Long-term Care Retirement and Security Act of 2008

March 28, 2008
IMMEDIATE RELEASE

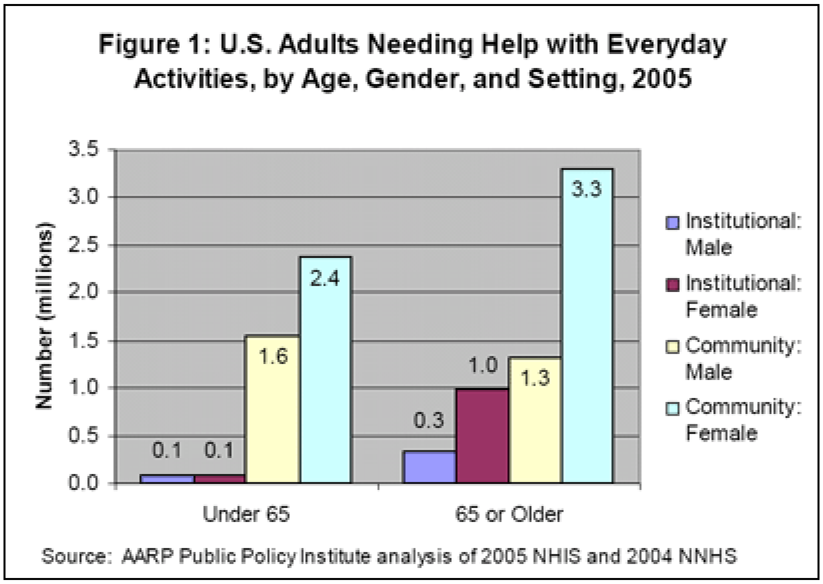
Contact: Keith Rupp
Communications Director
(863) 534-3530

Long-term Care Needs a Long-term Solution

Long-term care is an issue that affects nearly every American. With an ever aging population, most families at one point or another are forced to make a decision regarding the future of a loved one who needs assistance with everyday living. These decisions are limited and costly and many find themselves struggling between the high price of institutionalization or informal family care. Action such as the "Long-term care Retirement and Security Act of 2008" must be taken to alleviate the financial and emotional burden that families find themselves under.

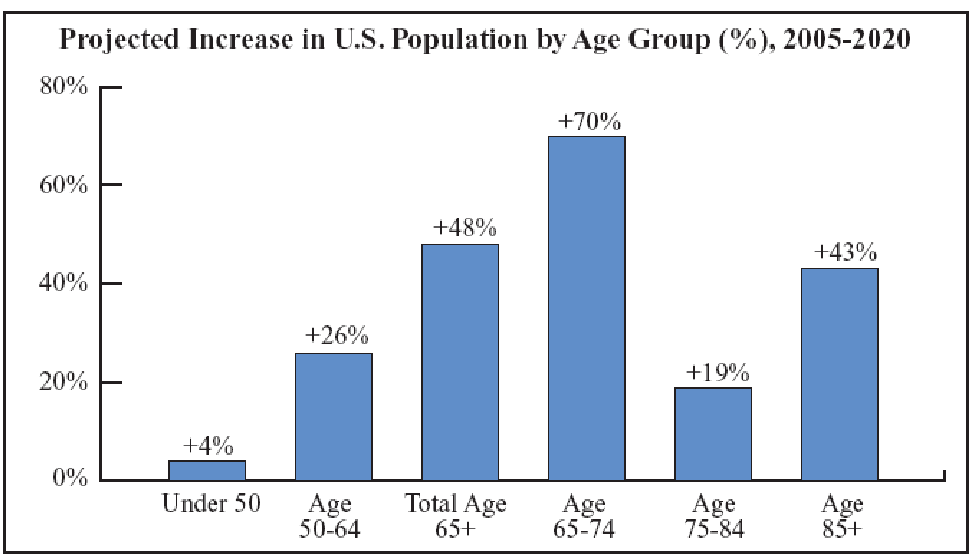
What is Long-term care?

Long-term care (LTC) is a type of service or support for those who are unable to function completely independent in society. Typically, those who need LTC the most are the elderly. However, LTC refers to anyone who needs assistance to function in their daily lives. Long-term care includes personal care, rehabilitation, social services, assistive technology, home health care, home modifications, care coordination, assisted transportation, and more.



Issue

Due to advancements in technology and healthcare, people are living longer than ever. As a result, the United States is experiencing a rapidly aging population due to the baby boomers (those born from 1946 to 1964). This growing population has raised numerous concerns regarding LTC in America particularly for the elderly with physical or mental impairments. According to the US Census, from 2005 to 2020, the population of 65 or older will increase 48% and the age of those 85 or older will increase by 43%. Further, the population of individuals between 65 and 74 will increase to 70%. By 2025, the elderly population will increase to approximately 60 million, or 20% of the population



Data Source: U.S. Census Bureau Estimates (2005) and Projections (2020)

Further, this rapidly aging population increases the demand for long-term care due to the amount of individuals living alone -38% over the age of 75- without a vehicle in their possession -12% over the age of 65.

According to the National Long-term Care Study (NLTCS), 60% of those over the age of 65 live alone, increasing their need for long term care.[1] Also, adult children or grandchildren are cited as the main care givers to the elderly population. According to research conducted by the American Association of Retired People (AARP), two-thirds of older people with disabilities relied solely on “informal,” help; approximately 75% of which was unpaid care from friends and family.[2] Further, AARP found that the total economic value of this type of caregiving was $350 billion in 2006: which is more than what was spent on all “formal” (hospice, paid caregiver, nursing home, etc…) long-term care, including both institutional and home and community-based services.[3]

Long term care is extremely expensive. The minimum cost for one-year nursing home stay can cost approximately $50,000.[4] A 2006 study found that the average private cost of care in a nursing home was approximately $75,000 per year for a private room and $67,000 per year for a shared room.[5] In regard to at home professional care the average private pay cost is $19 per hour, or $76 for a 4 hour visit.[6]
Despite the high cost of LTC, less than 5% of those under sixty-five have an insurance policy protecting against LTC expenses; therefore a large number of individuals pay for LTC out of pocket, without public assistance.[7]

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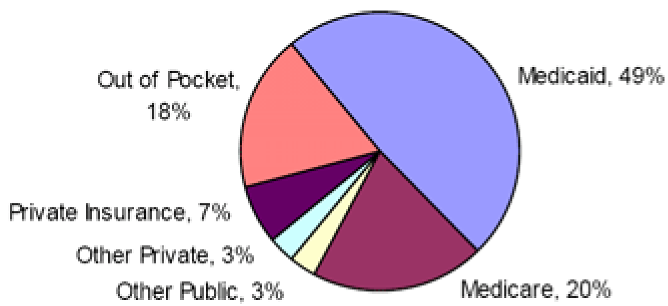
[1] Neuharth, Tennille and Stevern Stern. *Shared Caregiving Responsibilities of Adult* Siblings with Elderly Parents. October 2000
[2] Spillman, B., and Black, K. “Staying the Course: Trends in Family Caregiving” AARP, 2005
[3] Gibson, M.J., and Houser, A., “Valuing the Invaluable: A New Look at the Economic Value of Family Caregiving” AARP, 2007
[4] AARP and NAC, “Caregiving in the U.S.” 2004
[5] Metlife Mature Market Institute, “2006 MetLife Market Survey of Nursing Home and Home Care Costs” 2006
[6] *IBID.*
[7] AARP and NAC, “Caregiving in the U.S.” 2004

Figure 3: National Spending for Long-Term Care, by Payer, 2005



Source: Georgetown University Long-Term Care Financing Project, "National Spending for Long-Term Care" fact sheet, February 2007

These out of pocket costs are exceedingly high to individuals and care-givers. Amongst those who provide informal care approximately half contribute financially an average of $200 per month.[8] Further, the majority of caregivers with the most intense level of responsibility –"40 or more hours of care per week and helping with 2 or more activities of daily living" –report major changes in their working patterns and 35% gave up work entirely.[9]

Not only is LTC expensive for individuals, it is also very costly to the Federal government. The Medicaid program provides the majority of LTC in America. This entitlement program funds approximately one out of two LTC expenditures (49.3%) and in 2004 cost $95.7 billion.[10]

The Long-term Care Retirement and Security Act of 2008

This legislation would amend the Internal Revenue Code to allow a deduction for eligible long-term care insurance premiums for a taxpayer and the taxpayer's spouse and dependents; and a credit for eligible caregivers caring for certain individuals with long-term care needs. This legislation has three provisions. The first two detail the major elements of the legislation regarding deductions and credits. The final part of the bill deals with consumer protections. Specifically this legislation would:

- Permit individuals to make a tax deduction in an amount equal to the "applicable percentage" of eligible long-term premiums
  Note: "Applicable Percentage" is defined as 25% in 2009/20010, 35% in 2011, 65% in 2012, and 100% thereafter.

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[8] *IBID.*
[9] *IBID.*
[10] Stone, Julie. Congressional Research Services. *Medicaid Coverage for Long-term Care: Eligibility, Asset Transfers, and Estate Recovery*. RL 33593. 1/31/2008

- Require coordination of deductions and prohibits and individual from making deductions under 162(1) or 213(a).

  Note: Without this provision an individual would be able to take an expense and deduct it twice: once under the new section & another time under 162(l) or 213(a).

- Permit Long-term Care deductions to be made under cafeteria plans and flexible spending arrangements.

- Establish an “applicable credit” for caregivers of those with long-term care needs.

  Note: “Applicable credit refers to $1,500 in 2009, $2,000 in 2010, $2,500 in 2011, and $3,000 for 2012 and thereafter.

  Note: The applicable credit is multiplied by the number of individuals with respect to whom the taxpayer is an eligible caregiver

- Establish consumer protections based on the National Association of Insurance Commissioners recommendations for qualified long-term care policies.

Estimates on Enrollees

It is estimated that 6 million individuals currently have long-term care in insurance policies.

- 4.3 million have individual (non-group) policies
- 1.7 million have employer-sponsored policies

The Joint Committee on Taxation (JCT) estimates that by 2017, approximately 8.2 millions individuals will have long-term care policies.

- 5 million have non-group (non-group) policies
- 3.2 million have employer-sponsored policies

Deduction

The Long-term Care Retirement and Security Act of 2008 creates an above-the-line deduction for qualifies long-term care insurance premiums. Permit individuals to make a tax deduction in an amount equal to the “applicable percentage” of eligible long-term premiums. An “Applicable Percentage” is defined as 25% in 2009/20010, 35% in 2011, 65% in 2012, and 100% thereafter.

Above the Line Incentives

JCT estimates that 97% of individual (non-group) policyholders would be eligible for the proposed above-the-line deduction for LTC policies, because they are held by individual who have no self-employment income. JCT, estimates that the Long-term Care Retirement and Security Act of 2008 would create incentives for individuals and by 2017 the number of individual LTC policy holder will increase by 9%.

JCT also found that the Long-term Care Retirement and Security Act of 2008 would entice individuals who already have LTC coverage to invest in richer policies. The majority individual policyholder who are 60 or older have premiums that fall under the premium limits, and would have incentive to invest in a better plan. JCT estimates that under the Long-term Care Retirement and Security Act of 2008 by 2017 that the richness individual policyholders will increase by 8%.

Cafeteria Plan's Incentives

It is estimated that 76% of employer-sponsored LTC insurance policies are held by active employees and approximately 24% are held by retirees. Under the Long-term Care Retirement and Security Act of 2008 all active employees would be able to purchase LTC through cafeteria plans. JCT estimates that 9% of active employees have employer-sponsored are not offered cafeteria plans. Therefore, 91% of active employees have employer-sponsored would be permitted to purchase LTC policies through cafeteria plans under this legislation. Further, the JCT estimates that this provision of the Long-term Care Retirement and Security Act of 2008 would lead to a 12 % increase in the number of active employees with LTC policies a by 2017.

JCT also found that the cafeteria plan provision of the Long-term Care Retirement and Security Act of 2008 would entice individuals who already have LTC coverage to invest in richer policies. JCT, estimates that the Long-term Care Retirement and Security Act of 2008 would create incentives for active policyholders and by 2017 the number of individual LTC policy holder will increase the richness of their policy by 12%.

Those Ineligible for Cafeteria Plans

There are approximately 0.6 million individuals whose employer-sponsored coverage does not offer cafeteria plans, both active employees and retirees. Amongst these individuals, under the Long-term Care Retirement and Security Act of 2008 the JCT estimates that by 2017, there will be a 9% increase in number LTC policyholders, as well as, a 9% increase in the richness of such policies.

Flexible Spending Account Incentives

The JCT estimates that there are approximately 59 million active employees who have access to Flexible Spending Accounts (FSA), and 10 million are enrolled. Under the Long-term Care Retirement and Security Act of 2008 participants in FSAs would be permitted to use these accounts to pay for LTC services for themselves, their spouses, and their dependents. It is estimated that in 2008 approximately 10,000 health FSA enrollees use these funds for LTC. The Long-term Care Retirement and Security Act of 2008 would create an incentive for individuals to enroll in FSA's and use their funds towards LTC. Further, employers

Credit

The Long-term Care Retirement and Security Act of 2008 provide a credit for taxpayers with long-term care needs. Specifically, this legislation establishes an “applicable credit” for caregivers of those with long-term care needs. An “applicable credit refers to $1,500 in 2009, $2,000 in 2010, $2,500 in 2011, and $3,000 for 2012 and thereafter. The applicable credit is multiplied by the number of individuals with respect to whom the taxpayer is an eligible caregiver This credit will result in several positive responses, such as:

- Create incentives for low come individuals to obtain their certification of need for LTC;
- Create incentives for individuals to update certification of need for LTC

Cost Estimates

The estimates the revenue of the Long-term Care Retirement and Security Act of 2008 of the proposal on the FY beginning in January 2009 (See next page):

Item	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2009-13	2009-18
	Fiscal Years [Billions of Dollars]											
Above-the-line deduction for long-term care premiums.............	-0.1	-0.4	-0.5	-0.9	-1.8	-2.8	-2.9	-3.1	-3.2	-3.3	-3.7	-19.0
Long-term care insurance in cafeteria plans.......	-0.2	-0.2	-0.3	-0.3	-0.3	-0.4	-0.4	-0.4	-0.5	-0.5	-1.3	-3.5
Long-term care services paid through health FSAs....................	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	-0.1	-0.1	-0.3
Non-refundable personal credit for long-term care needs....................	-1.3	-1.9	-2.7	-3.0	-2.9	-2.9	-2.8	-2.7	-2.7	-2.6	-11.8	-25.5
Consumer protections...........	Negligible Revenue Effect											
Total Revenue Effect....................	**-1.6**	**-2.6**	**-3.6**	**-4.2**	**-5.1**	**-6.0**	**-6.2**	**-6.3**	**-6.4**	**-6.5**	**-17.0**	**-48.4**

NOTE: Details may not add to totals due to rounding.
(1) Loss of less than $50 million.

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