

My name is Steve Chies. I am the First Vice-Chair of the American Health Care Association (AHCA) and serve on the Board of Directors and Executive Committee of the National Center for Assisted Living (NCAL). I have been involved in the long term care profession for more than 25 years. I also serve as Vice-President for facility operations for Benedictine Health System, based in Cambridge, Minnesota. In this capacity, I am responsible for operations at 44 long term care facilities.

Thank you, Senator Breaux, for the substantial amount of time this Committee has invested in examining the many aspects and future implications of the nation's long-term care financing crisis.

As you, your staff, and every member of this Committee are well aware from the many hearings you have held over the past two years, the current system is inflexible and unsustainable for the long term. As you know, this is not an opinion – it is a fact.

Unfortunately, with all of the immediate, pressing health care priorities facing our nation – such as prescription drugs and Medicare reform – the long term care financing challenge facing our nation are too often perceived as an issue that does not require urgent attention. This is the most common misperception plaguing the debate about this complex and important matter. This is not an issue that can be dealt with after the baby boomers enter the long term care continuum. It is an issue that must be tackled now – not five years from now or ten years from now, but now – starting today.

If you ask most Americans what crises they expect to face during the next few decades, chances are that few will mention the cost of nursing home care, home health care, assisted living care, or other long-term care expenses. These are not matters at the forefront of public consciousness. Most everyone believes they are somehow covered one way or another, or they mistakenly believe they will never need long term care of any kind at any time. Well, let's take a look around the room, because two out of five of us here today will need some form of long term care at some point in our lives. And it is not just the frail elderly who need care. Many persons who develop disabilities benefit from long term care in a variety of settings.

The number of Americans who need long-term care is growing rapidly. Understandably, according to the U.S. Bureau of the Census, people age 85 and older are more likely to need nursing home care than any other age group. In the year 2010, the number of individuals 85 and older – approximately 3.5 million – will double to seven million by 2020, and double again to 14 million by 2040. During this same period the number of workers per retiree, whose tax dollars support government programs for retirees, will decline from about 4.75 workers per retiree in 2010 to about 2.75 workers per retiree in 2040. Without reform, this will constitute an increasingly heavy tax burden on workers when compared to 1950 when the worker to retiree ratio was 16 to 1.

As baby boomers approach retirement age, millions of Americans will be confronted by the need for long-term care, and confounded by the need to pay for it. For

most of these individuals, they will face the cruel reality of poverty and dependence at a time in their lives when a person should be in control of their golden years.

Consider this fact: the average cost for a year's stay in a nursing home is as much as \$50,000 – and far more in larger cities and metropolitan areas. For too many American families, these costs are simply out of reach. For others, a stay in a nursing home can wipe out the savings from a lifetime of work. That's why it's entirely accurate to say the cost of long-term care is the greatest un-funded liability facing most Americans.

It's also fair to say, Mr. Chairman, that a key pillar of the nation's long term care financing structure – Medicaid – is quickly becoming one of the most under funded government programs we have in relation to its mission and mandate. A recent report by BDO Seidman showed that Medicaid was under funding skilled nursing care by approximately \$3.3 billion in 1999, and a follow up analysis, soon to be released, will show under funding reaching close to \$4 billion in 2000.

Complicating the Medicaid under funding crisis is the fact that, increasingly, the nation's Medicare program is being forced to cross-subsidize Medicaid, and the trend lines in this regard are not encouraging. While we are, and will continue to be, vocal advocates for strengthening Medicaid and Medicare, we are under no illusion these programs – regardless of their funding levels – can ever replace the need for families and individuals to take charge of their retirement futures.

We recognized early on that the gravity and the severity of the challenges ahead required being addressed head on. As a result, AHCA and NCAL have spent a great deal of time and resources examining this issue – and thinking about ways to avoid watching families and individuals spend their way into poverty by relying solely on the existing long term care structure.

Nearly five years ago, a consortium of concerned providers across the nation came together, and convinced our association that we had a responsibility to invest time and resources toward a possible solution, or set of solutions, to help address critical care issues.

We decided to roll up our sleeves and assemble a task force to study the long term care financing issue. To assist us, we engaged the health policy experts at Abt Associates – a well known and highly regarded public policy research firm home-based in Boston.

Working with Abt, we developed a sophisticated micro simulation model that we have used to evaluate and work our way through various approaches toward long term care financing reform. A preliminary finding from our modeling is that an insurance-based approach, if it includes refundable tax credits for insurance for the most needy with tax deductions for others, is an approach that merits further consideration and investigation. Such a public-private insurance model could provide affordable coverage for everyone, regardless of income, and allow individuals a choice in long term care

settings. And when I say choice, I mean the most appropriate health care setting for those Americans who need long term care services.

I want to be clear to this Committee, Mr. Chairman – I am not here today as an advocate only for skilled nursing care. But I am here to advocate the most appropriate health care setting for all Americans – whether it is nursing care, home health, community-based, or assisted living.

A public-private insurance model is one that Americans appear ready to embrace. Aside from evaluating financing models with Abt, we also conducted research asking Americans about their concerns in long term care. Our preliminary research clearly found that individuals had major concerns about cost and choice, as is logical. The research also demonstrated that Americans had significant concerns over a program that was either totally controlled by the private sector, or totally controlled by the public sector. There was an element of distrust and concern for one side taking full ownership of this issue. But there was more confidence when both sectors were involved – taking the best of what each had to offer.

The private sector would promote market competition and efficiency, while public involvement would provide a safety net and a watchful eye to protect consumer interests.

In evaluating the best long term care scenarios for Americans in, it was clear that our key parameters must be affordable care to the individual and choice.

We believe any reform in financing long term care must gradually transform our current system from one requiring individuals to impoverish themselves to one that empowers and encourages individuals to plan for their own long term care needs, providing options, providing choice, and providing flexibility so that everyone can participate.

Such a reform mirrors the true fabric of who we are as a people, and what we want in our retirement years. We treasure our freedom, we cherish our ability to choose, and we value maintaining control over where we live, and how we spend our lives. Our current long term care system does not allow that. It robs Americans of their financial independence and their freedom to choose how and where they will live. The status quo essentially forces one to become a ward of the state in one's elder years. This is unacceptable.

In our work with Abt, testing financing approaches with our simulation model, we arrived at some initial observations, which I will summarize:

- Because of demographic changes, Medicaid spending for long term care will continue to consume increasingly greater proportions of the gross domestic product and of state budgets while the revenue base in states shrinks during the first half of this century.

- The number of workers per retiree is declining; the tax base is simply not there to financially sustain programs for the elderly including long term care. The demographic information is very clear about this.
- The capacity of the continuum of long term care services will need to be greatly expanded to meet the needs of aging baby boomers and access to this continuum is essential.
- Reliance on family care giving will be strained simply because there will be fewer family members available to provide this care.

To address these challenges, we agreed on the following:

- Congress must not only continue to endorse and support the growth of the long-term care insurance market – but it must begin doing so in a way that specifically targets assistance to low- and moderate-income Americans to help them purchase and maintain insurance.
- We believe changes in the tax code can accomplish this important objective. Our research has found that refundable tax credits promote stability in the long-term care insurance marketplace. Help in maintaining coverage and premium payments is one of the central roles of a refundable tax credit provision. Our preliminary analysis indicates that without such a provision, real stability in the long term care insurance marketplace – to provide individuals true access to the long term care they need – is unlikely.
- We believe a public-private program should be created at the federal level to help all Americans prepare for their long-term care needs. This, we believe, should entail combining changes in the tax code with an eventual restructuring of public long term care financing that moves away from a dual system of Medicaid and Medicare to finance the long term care needs of citizens to one uniform public-private program. Considering the scope of this undertaking, an incremental approach to this restructuring may indeed be required – an incremental approach that first focuses on increasing the availability of insurance and individual savings for long term care through appropriately targeted tax incentives.

Mr. Chairman, we believe through our research that a national, voluntary public-private program for financing long term care is possible and can provide growing access to the range of long term care needs aging Americans. It acknowledges that most Americans would prefer to be cared for at home, in a community-based setting in assisted living, but also provides for nursing home care when it is appropriate.

Today, two out of three individuals we care for are Medicaid eligible – their long term care is paid for with public dollars after they have spent down and impoverished themselves. This is a sad but true fact.

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Because the Medicaid program is struggling today, as I discussed earlier, and because our research shows us that Medicaid cannot meet the needs that will be placed upon it by the baby boom generation, we have sought to devise a new financing system that will lessen the dependence on government-paid services while offering more choice and access.

With diligent program development and implementation, a public-private program could make it possible for a majority of today's Medicaid-eligible retirees in the future to pay privately for the care they receive. This can be accomplished by shifting the role of government – from government paying for services to government helping individuals save for their long term care needs.

Tax incentives can be an important component in shifting the role of government to one of helping individuals prepare for their long term care needs. One incentive is the “above-the-line” deduction now being considered by this Congress and supported by you, Mr. Chairman, and others on this Committee. The deduction could help to dramatically increase the number of people who purchase long term care insurance by reducing the costs of this insurance.

However, we also envision the critically important need for a “refundable tax credit” – one that is targeted toward low to moderate income Americans. Such a tax credit makes insurance coverage more affordable to this segment of our population than a pure “above-the-line” tax deduction. A refundable tax credit also enables persons who may have purchased insurance earlier with the benefit of a tax deduction to maintain their coverage when their income drops.

In the future, it is the low to moderate income Americans who will have the greatest need for government paid long term care services provided by Medicaid. Therefore, we must target this group for support to help lessen dependence on Medicaid.

Ultimately, we have concluded that “lifetime” long term care coverage is the most sensible insurance policy to fully increase individual access to the full long term care continuum – to home care, community-based services, assisted living and nursing home care – and to allow individuals access to the setting that is best for them in terms of the highest level of quality possible. Lifetime coverage also means the government will not have a back end cost for providing care to individuals with such long term care insurance coverage.

For low- to moderate-income individuals, the refundable tax credit would fully or partially pay the premium cost of a long term care insurance policy – a private policy or a public policy offered by the government. The level of premium subsidy would be based upon a sliding scale of the individual's income and assets.

An individual, for example, with income of \$10,000 or less might receive a 100% subsidy; with income between \$10,000 and \$20,000, one might receive a 50% premium subsidy; those with incomes between \$20,000 and \$30,000 might receive a 25% subsidy.

Of course when there is a targeted refundable tax credit coupled with a tax deduction for those at higher income levels, there can be some instances when a low to moderate-income individual's potential tax deduction may exceed the value of a tax credit. In such cases, the individual could choose the most beneficial tax benefit.

I want to note, Mr. Chairman, these are hypothetical figures, but want the Committee to understand the basic income parameters associated with this approach.

This approach envisions creation of a new safety net – one that not only helps individuals purchase coverage, but also works to help them maintain that coverage. As an individual's income changes because of job loss, retirement or disability, the provision of premium subsidies through a refundable tax credit ensures flexibility so that coverage purchased at a younger age can be maintained.

Once tax incentives enable greater numbers of Americans to provide for their future long term care needs through insurance, there is a second logical step. With an established insurance market it becomes more feasible to move the government's role in the coverage of long term care to the federal level – thereby relieving states of an increasingly onerous budgetary burden. This restructuring at the federal level will allow for the coordination of both acute and long-term care for the elderly and long-term care for the disabled. This coordination of care at the federal level – not the state level – will eliminate today's failed patchwork financing system, thus creating an efficient and seamless system of care.

A key component in this public-private program – one that in the end moves the public sector role to the federal level – calls for intensive national education – a national program designed to help individuals understand what risks they face, and what options they have. We believe that when individuals understand the risks they face, the costs of care and the options they have, they will choose to act responsibly and plan for their needs.

As we envision in this effort, the federal government will maintain a safety net to provide care for those who, through no fault of their own, could not insure against the risk of needing long term care. In such cases, government has the role of providing care. But in any voluntary system there will be those with means who choose not to participate. If care is needed, we believe these individuals must fully contribute to the costs without benefit of any asset protection.

We neither support nor advocate any system in which an individual does not take some financial responsibility for their care. This fundamental premise reflects American values: Americans want to control their destiny, but a central element of this effort is that every individual, in varying degrees, must take some responsibility for their future.

AHCA and NCAL believe the components of a public-private based financing model that I have just outlined are viable, and we believe it's a very strong start. It offers a common sense approach to meeting future long-term care needs. It is a system that best utilizes the public and private sector for the good of all.

This can't be implemented overnight. This is necessarily a transitional effort from a very large, cumbersome, restrictive Medicaid system into a new federal system involving the private and public sectors. This transition would take approximately ten years.

All of our elected officials must recognize the severity of this problem – just as you do Mr. Chairman. Regardless of what final approach is ultimately decided upon, we need to start today.

With the proper public education and planning, we can lay the groundwork for a financing system that will encourage, support and protect future generations, and our loved ones. It is sensibly based on the principle that, "If armed with the facts and the means, people will do the right thing to protect their interests."

Mr. Chairman, thank you for this opportunity to outline our perspective on this important matter, and I thank you for your continued dedication and perseverance on this vitally important issue that, inevitably, will indeed impact every American. I would be happy to entertain the Committee's questions.

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