



## A Proposal to Improve Our Nation’s Financing System to Meet Seniors’ Long Term Care Needs

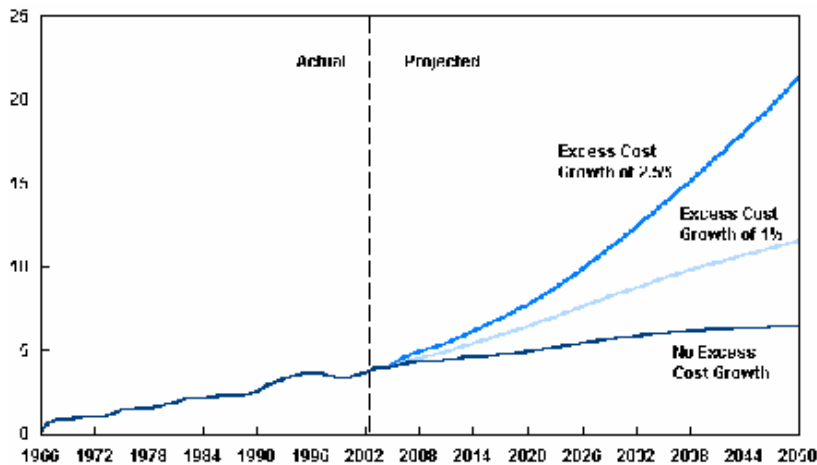
### Executive Summary

#### Reform, Planning, New Benefits: The Right Proposal at the Right Time

**Overview.** As the first baby boomers turn 65, the cost of long term care (LTC) and post-acute care expenditures (care following a hospital stay) will continue to increase dramatically. In fact, this sharp increase is predicted to continue for the next fifty years—due to the aging baby boom generation. Both federal and state budgets are facing enormous financial pressures from this cost of care – and the system itself cannot support the growing number of individuals entering public healthcare programs. A strong, viable solution is needed.

#### Total Federal Spending for Medicare and Medicaid Under Different Assumptions About Excess Cost Growth

(Percentage of GDP)



Source: Congressional Budget Office

The current system lacks a robust market for private financing that could replace this public funding. It also provides few incentives for individuals to plan for future LTC costs. The looming financing crisis, coupled with a complex care system, lacks a single, unified method for maximizing patient preferences and program value by ensuring patients are treated in the most clinically appropriate, high quality setting.

**The Solution.** Three of the leading organizations representing LTC providers -- the Alliance for Quality Nursing Home Care (the Alliance), American Health Care Association (AHCA), and the National Center for Assisted Living (NCAL) -- have developed a workable, relevant policy proposal that meets the needs of patients while addressing the threatening financing crisis.

**A New Model for Financing and Delivery.** The Alliance, AHCA and NCAL propose a new model for financing and delivering long term care and post-acute care that is sustainable, patient-centered, and more cost-efficient. This new proposal replaces current patchwork financing with a voluntary federal system, increases private LTC financing, and streamlines the post-acute and long term care delivery systems.

**New Incentives for Individuals to Save and Plan.** This proposal provides new incentives for individuals to save and plan for future long term care expenses by providing federally-financed catastrophic long term care coverage for those individuals who make a significant personal planning commitment to their future long term care costs. The proposal will create a unified post-acute care and long term care benefit for aged dual eligible beneficiaries (those age 65 and older), and it will reform Medicare's post-acute care benefits to create a site-neutral payment system across all post-acute care providers.

## **REFORM THAT IS PATIENT FOCUSED**

### **Reforming Medicare Benefits for Nursing Facility Residents Following a Hospital Stay**

CMS will implement a new Medicare post-acute care payment system to pay primarily based on the condition, needs and characteristics of the patient, regardless of the post-acute care setting in which he or she receives care.

- **National Unified Patient Assessment Tool.** Under the proposal, the Secretary of Health and Human Services (hereafter referred to as "the Secretary") will develop a patient assessment tool designed to replace, over time, the existing site-specific tools. The new tool will determine patient placement, care plan development, continued stay and discharge decision making, development of quality indicators, and payment calculation.
- **Payment System for Post-Acute Care Services.** Under the proposal, the Secretary will develop a site-neutral post-acute care prospective payment system that pays based on the condition, needs and characteristics of the patient rather than the post-acute care setting.

## Planning for Future LTC Costs

The proposal establishes a catastrophic federal LTC benefit (described below) and facilitates coverage of front end long term care costs through individual planning tools and payment options. In order to participate in the new federal catastrophic LTC program, individuals will be required to either purchase a pre-approved LTC insurance policy or dedicate funds into approved savings vehicles reserved for future LTC costs.

- **Establishment of Personal Responsibility Amount.** Under the proposal, individuals who choose to participate in the new federal catastrophic LTC program may have a personal responsibility requirement established by the Social Security Administration (SSA) upon eligibility for Medicare Part A. The base coverage requirement will be \$100,000 (in 2007 dollars) with adjustments made on a sliding-scale basis so that higher-income beneficiaries dedicate a greater amount and lower-income beneficiaries qualify for a reduced personal responsibility requirement.
- **Low-Income Exemption.** The proposal delivers an exemption from the personal responsibility requirement for low-income individuals, defined as those with an income of less than 150% of the federal poverty level and with countable assets below the supplemental security insurance (SSI) thresholds of \$2,000 for an individual and \$3,000 for a couple. An individual's home equity value surpassing \$50,000 will be included as a countable asset. Current law assets-transfer rules will apply.
- **Incentives for Early Planning** The proposal encourages people to plan in advance of Medicare eligibility, allowing them to contribute to a pre-approved LTC financing vehicle at any age, *and* have a personal responsibility amount established by the Social Security Administration SSA as early as age 55 – thereby qualifying for a discount.
- **Education Campaign.** Under the proposal, the Secretary and SSA will collaborate on an education campaign to inform working-age adults of the personal responsibility requirement and the new opportunities for private financing. The campaign – to be coordinated with state Medicaid programs, aging agencies, and state health insurance programs – will include print, radio, television, and internet media.
- **Use of Funds in Personal Responsibility Account.** The proposal will protect federal funds by requiring all enrollees financing LTC services under this benefit to use the approved LTC funding source for payment for those services and to qualify for an LTC need. Those having an LTC need will be required to use all funds from their account before becoming eligible for federal LTC benefits.

To make certain that funds are spent appropriately, the Secretary will establish the usual and customary rates of LTC services associated with level of need. Amounts that individuals pay above these usual and customary rates will not be

counted towards meeting the personal responsibility requirement.

### **A New Federal LTC Benefit**

Individuals eligible for Medicare who exhaust their personal responsibility requirement will then be eligible for a federal LTC benefit, as will all aged Medicare low-income beneficiaries who meet income and assets requirements.

- **Level of Benefits and Care Plan Development.** Under the proposal, the Secretary will develop a uniform LTC assessment module in coordination with the National Patient Assessment Instrument for post-acute care. Using the LTC assessment tool, a care coordinator will establish whether the beneficiary qualifies as having a long term care need, as well as determine his or her level of need and benefit level.
- **Benefits.** The proposal promotes consumer choice by creating several ways to receive benefits. Beneficiaries, other than those eligible for low-income benefits, may only receive benefits after they have exhausted the personal responsibility requirement of \$100,000 for the average income participant. Beneficiaries may choose one of three benefit options:
  - 1) Cash benefits to pay for community-based benefits such as informal care services, adult day care centers, home health aide services, in-home services, and other services determined appropriate by the Secretary;
  - 2) Direct services from a skilled nursing facility (SNF) or assisted living facility (ALF), which then submit claims for delivered services to the administrative contractors; or
  - 3) Enrollment in a Medicare Advantage plan that provides the LTC benefit and arranges for services.

The beneficiary's assigned care level will determine benefit level. The cash payment amount will be set by the Secretary, as will separate payment rates for SNFs and ALFs (rates exclude housing costs for ALFs).

- **Administration.** Under the proposal, LTC benefits will be administered by contractors or by Medicare Advantage (MA) plans, similar to how Medicare benefits are administered today. Administrative contractors and MA plans will work with providers to ensure that care coordinators provide timely assessments of an individual's level of need, set benefit levels fairly, develop care plans and ensure continuity of post-acute and long term care through the assessment process. The proposal directs the Secretary to establish processes for tracking cash accounts and ensuring appropriate use of funds.
- **Limited Benefits for Those Not Complying With Personal Responsibility Requirement.** The proposal creates an added incentive to participate in the

program by allowing access for non-participants to a pared down federal benefit only. The Limited Benefit will be a narrowed set of benefit options to be defined by the Secretary.

Eligibility for the limited benefit will be similar to eligibility for Medicaid today. Individuals will be required to spend down their income to 100 percent of federal poverty level and their assets down to low-income levels described above. Current Medicaid asset transfer rules will apply, as will set-asides for spouses living in the community.

- **State Maintenance of Effort.** Under the proposal, states will make payments to the federal government for the cost of LTC services. The amount of each state's payment will approximately equal its expenditures if it were to continue to pay for LTC through Medicaid on behalf of dual eligibles.

### **New Financial Products to Promote Personal Responsibility in the Funding of Long-Term Care**

The proposal creates new financial products to help individuals plan for their future LTC costs and meet their personal responsibility requirement. These products will include improved reverse mortgages; federally-endorsed LTC insurance products; and new LTC savings accounts. As referenced above, the Secretary will conduct wide-ranging media campaigns to promote these products along with the personal responsibility requirement.

- **Creation of Federally-Endorsed LTC Insurance Products.** Under the proposal, the Secretary will create long term care insurance requirements that ensure the reliability and value of the products. The requirements, some of which would be developed by the National Association of Insurance Commissioners (NAIC), will apply nationally to all products sold as part of the national LTC program.
- **Improving Reverse Mortgages.** The proposal will direct the Secretary, in coordination with the Secretary of Housing and Urban Development, to recommend ways to make reverse mortgages more attractive and more affordable, including capping administrative expenses and creating a federally-chartered agency to offer reverse mortgages.
- **Establishing LTC Savings Accounts.** The proposal will direct the IRS to issue regulations by 2010 to establish LTC savings accounts in which individuals and couples can deposit funds for future LTC costs. Deposits will receive the same tax treatment as deposits to IRA accounts.
- **Planning and Evaluation.** During the proposal's public outreach campaign to promote the new and improved LTC financing products, individuals (and couples) will have sufficient time to plan for their personal responsibility requirement and enrollment in the federal LTC benefit.

The Secretary will establish performance measures for states in promoting the federal program. The Secretary may reduce, by an amount to be determined by the Secretary, individual state maintenance of effort requirements for states achieving measurable success. In conjunction with the IRS, the Secretary will develop recommendations to Congress for a tax incentive to encourage employers to promote and educate employees about the federal program and the long term care financing options.