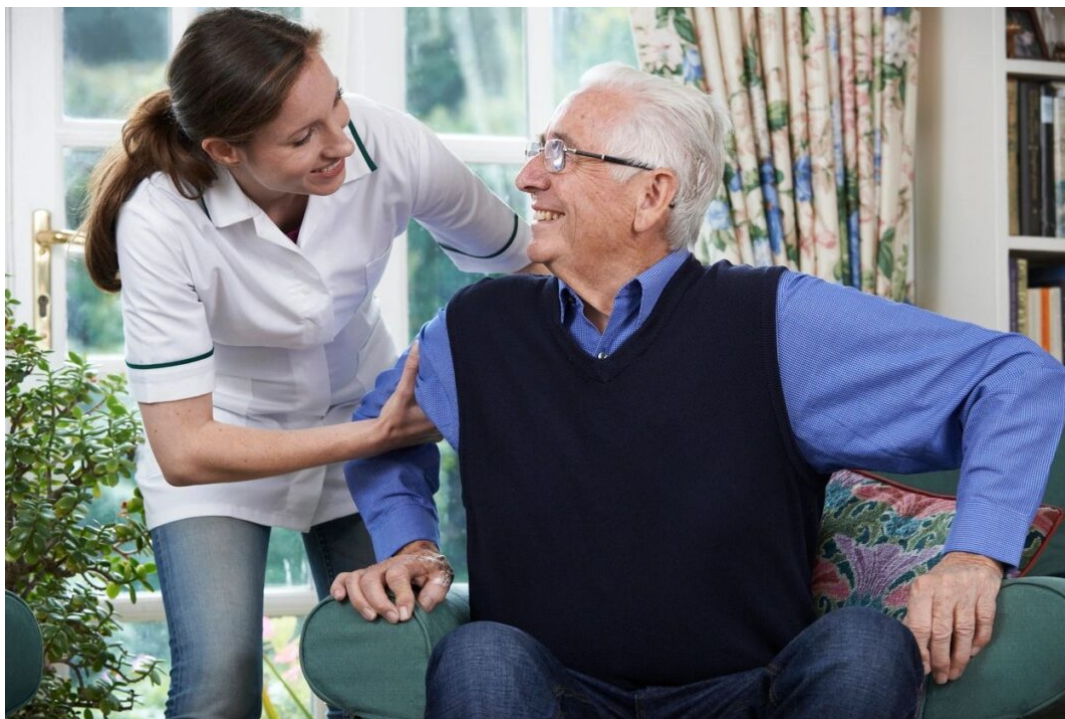


Long Term Care Irony

By **Stephen A. Moses** - December 1, 2021



"If you don't buy long term care insurance, you could lose your life's savings."

We've heard that threat from government, private companies and the media for decades, but private long term care insurance has languished nevertheless. It wasn't until a state government forced people to buy *public* long term care coverage through the WA Cares Fund that private policy sales exploded. Demand for private long term care insurance, as the only means to escape Washington State's otherwise mandatory payroll tax, overwhelmed supply leaving many citizens of the Evergreen State trapped in a public program they would rather avoid. How ironic and contra-intuitive.

Let's first put this puzzle into historical context and then resolve the

incongruity by examining the almost universally held, but faulty premises on which it's based.

Anyone who knows anything about long term care financing in the United States recognizes this mantra: Own long term care insurance or you may be impoverished by catastrophic care costs. Almost three of four Americans will need some long term care; one in four will face huge bills. All across the country people spend down into impoverishment until they slip onto Medicaid. That safety net only becomes available when people have been wiped out financially with no more than \$2,000 left in savings and no more than \$723 per month of income. Both the academic and popular media drum those warnings loudly and constantly into our ears.

Wow! How awful. You'd expect people to seek out and buy private insurance against such a risk without having to be cajoled by commissioned sales agents. But they don't. How odd.

Finding that long term care's high cost and Medicaid's draconian financial eligibility rules weren't enough to win consumers over, the state and federal governments hammered home the message with carrots and sticks. The long term care partnership program promised partial estate recovery forgiveness in exchange for buying private long term care insurance. Didn't work. The "Own Your Future" long term care awareness campaign urged people to wake up and take action. They didn't. Tax deductions and credits at the state and federal levels made private coverage cheaper. But even that didn't work.

As positive incentives failed, the government tried negative persuasion. Policy makers figured making Medicaid even harder to get should sensitize consumers to the need for private insurance. The look-back penalty for asset transfers to qualify for Medicaid was lengthened and strengthened by federal legislation in 1982, 1988, 1993, and 2006. Congress and President Clinton made it a crime to transfer assets in order to qualify for Medicaid in 1996 only to repeal that "Throw Granny in Jail" a year later and replace it with the

unenforceable “Throw Granny’s Lawyer in Jail” law in 1997. Medicaid estate recovery became mandatory in 1993. The home equity exemption was capped in 2006. None of these measures persuaded consumers that they should take personal responsibility to plan, save, invest or insure for long term care.

In fact, nothing worked to get the public to buy private long term care insurance until the State of Washington imposed a compulsory public program financed with a .58 percent supplemental payroll tax and promising a \$36,500 lifetime benefit for state citizens. Although the state represented this program as a major contribution to solving the long term care financing problem and promised it would ease the public’s worries about long term care, as soon as a choice to “opt out” by purchasing private long term care insurance became available, Washingtonians stampeded to the exits. Private LTCI carriers were overwhelmed by the demand. Within weeks, private coverage became almost entirely unavailable in the state.

No amount of importuning, positive incentives, or negative threats prevailed. But let the government step in to force people to pay for public long term care benefits and all of a sudden private insurance enjoyed a fire sale. Is this just a one-off in Washington State or could it become a pattern as other states and the federal government experiment with compulsory public long term care programs? Should people and companies hurry to get in front of those experimental public programs by insuring privately? Will they? Or will the long term care irony prevail with denial and evasion continuing to hold sway?

It all depends on whether or not future state and federal long term care programs offer people a choice, an opportunity to opt out by purchasing private coverage. If they do, consumers will behave as they have done in Washington. If not, not. Why is that true?

The answer lies in the commonplace but faulty premises about Medicaid and long term care financing listed in the preceding paragraphs. Medicaid long term care eligibility does not require

impoverishment. People can have incomes up to the cost of a nursing home plus virtually unlimited exempt assets and still qualify. Estate recovery is easy to evade. There is no evidence of widespread long term care spend down which is why the academic literature cites none. For documentation of these facts about how long term care financing really works, see [Medicaid and Long-Term Care](#).

So here's the answer to the "Long Term Care Irony." People don't buy private long term care insurance when the government pays for most catastrophic long term care costs, as it has done through Medicaid since 1965. No amount of cajoling, positive or negative incentives will get them to buy. But create a real cost for long term care by forcing them into a payroll-funded government long term care program and they'll rush to buy private coverage if that escape hatch is available.

The lesson for state and federal central planners is this: If you must force people into mandatory payroll-funded long term care programs of dubious solvency, at least give them a way out by purchasing private insurance so we have some consumers able to pay their own way if and when the bottom falls out of the country's many fiscally challenged entitlement programs.



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