The Joint Legislative Executive Committee on Aging and Disability

July 14, 2014
Meeting Materials

- Agenda
- Department of Retirement Systems, Retirement planning
    - Education & Outreach Team: A Resource for Public Employers and Employees, Marcie Frost, Department of Retirement Systems
- Long-term care funding overview
    - Financing Long-Term Services & Supports: What Should States Do, Joshua Wiener, Research Triangle Institute (RTI) International
    - Long-Term Care Financing, Pat Reeder, Wendy Boglioli, Genworth Financial
- Long-term care options and Medicaid avoidance
    - LTC Partnership Program Washington State, Cathy Fisher, Department of Social and Health Services
    - Broker World: The Impact Of LTC on States And the Role Of LTC Partnerships, supplied by Cathy Fisher, Department of Social and Health Services
    - DSHS: Long-Term Care (demographic info), James Kettel, Office of Program Research; Carma Matti-Jackson, Senate Committee Services; Ryan Black, Office of Financial Management

Washington State Legislature

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Olympia, WA 98504-0466
(360) 786-7407

Aging & Disability
Joint Legislative Executive Committee

John L. O'Brien Building
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Olympia, WA 98504-0600
(360) 786-7160

Monday
July 14, 2014
12:30 to 4:30 p.m.

House Hearing Rm B
John L. O'Brien Building
Olympia, WA

AGENDA

1. Department of Retirement Systems. Retirement planning.
   - Marcie Frost, Department of Retirement Systems.

2. Long-Term Care Funding Overview.
   - Joshua Wiener, RTI International
   - Pat Reeder, Genworth Financial
   - Wendy Boglioli, Genworth Financial

3. Long-Term Care Options and Medicaid Avoidance.
   - Cathy Fisher, Department of Social and Health Services
   - Mike Bryant, Office of the Insurance Commissioner
   - Lou McDermott, Health Care Authority
   - Beth Heston, Health Care Authority

4. Public comment.

5. Future recommendations. Parameters for future discussion.

Committee information and meeting materials can be found at the Committee's webpage:
http://www.leg.wa.gov/jointcommittees/ADJLEC/Pages/default.aspx

DRS
WASHINGTON STATE
Department of Retirement Systems

Education & Outreach Team

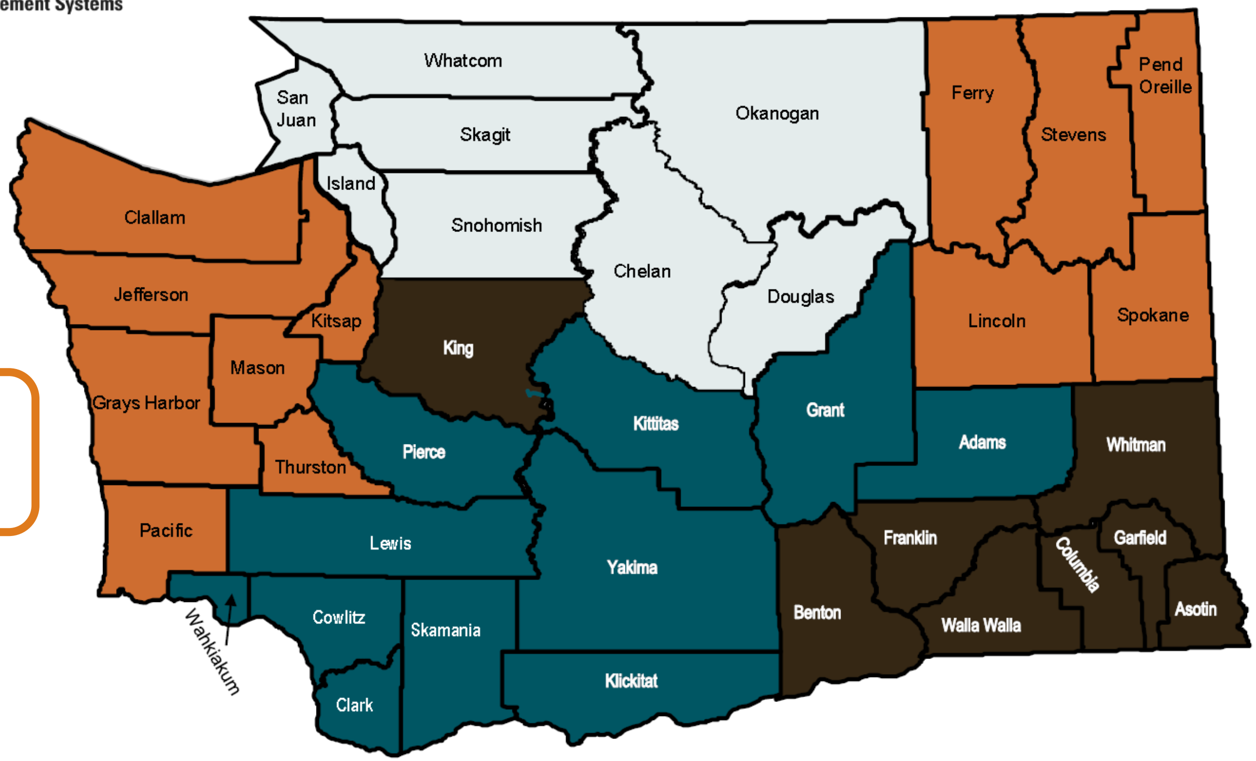
A Resource for Public Employers **and** *Employees!*

Marcie Frost
Department of Retirement Systems

WASHINGTON STATE Department of Retirement Systems

Education & Outreach Team

DCP



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Jeff Dixon-Ross, (360) 664-7011

General Questions about E & O:
Tina Datish, (360) 664-7005

ICMA-RC
Plan 3

DRS Washington State Department of Retirement Systems

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If you haven't been able to attend one of the popular "Planning for Retirement" seminars presented by the state Department of Retirement Systems, you now have an opportunity to view the same presentations online. Key segments of a recent seminar were recorded and are now available in on-demand webinar format. Stay tuned for our newest seminar. The presentations can be accessed at **http://ncwctc.com/**.

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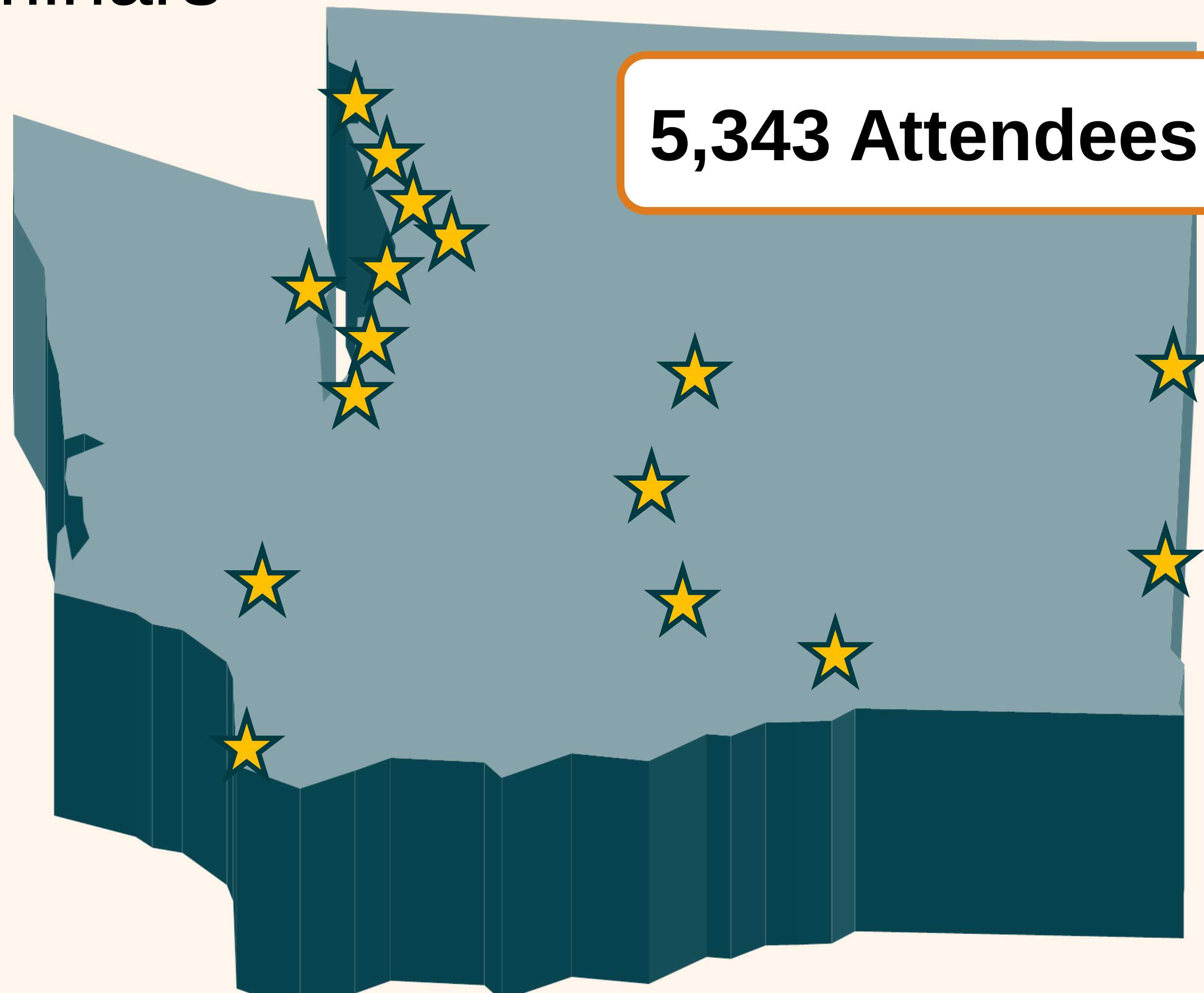
2013

24 Seminars

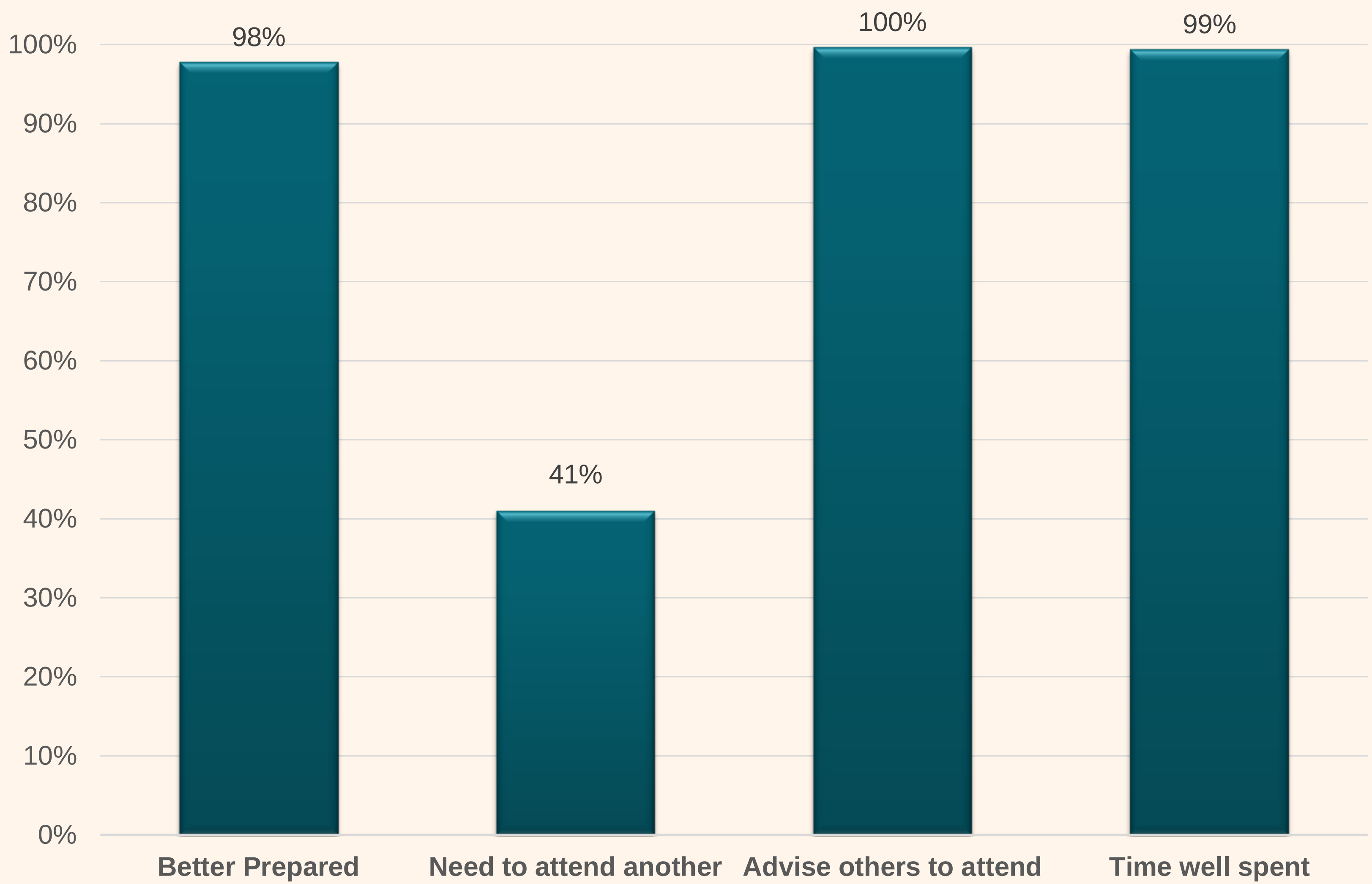


5,343 Attendees

Department of Retirement Systems

2013

Overall Seminar Comments



Washington State Department of Retirement Systems

2013

Group Presentations

18,599 Participants

1,163 Individuals

Individual Appointments

Live Webinars • Online Presentations

Thank You!

lorna.linden@drs.wa.gov

Financing Long-Term Services and Supports: What Should States Do?

Joshua M. Wiener, PhD
Distinguished Fellow
RTI International
Washington, DC

Problems of Long-Term Care Financing

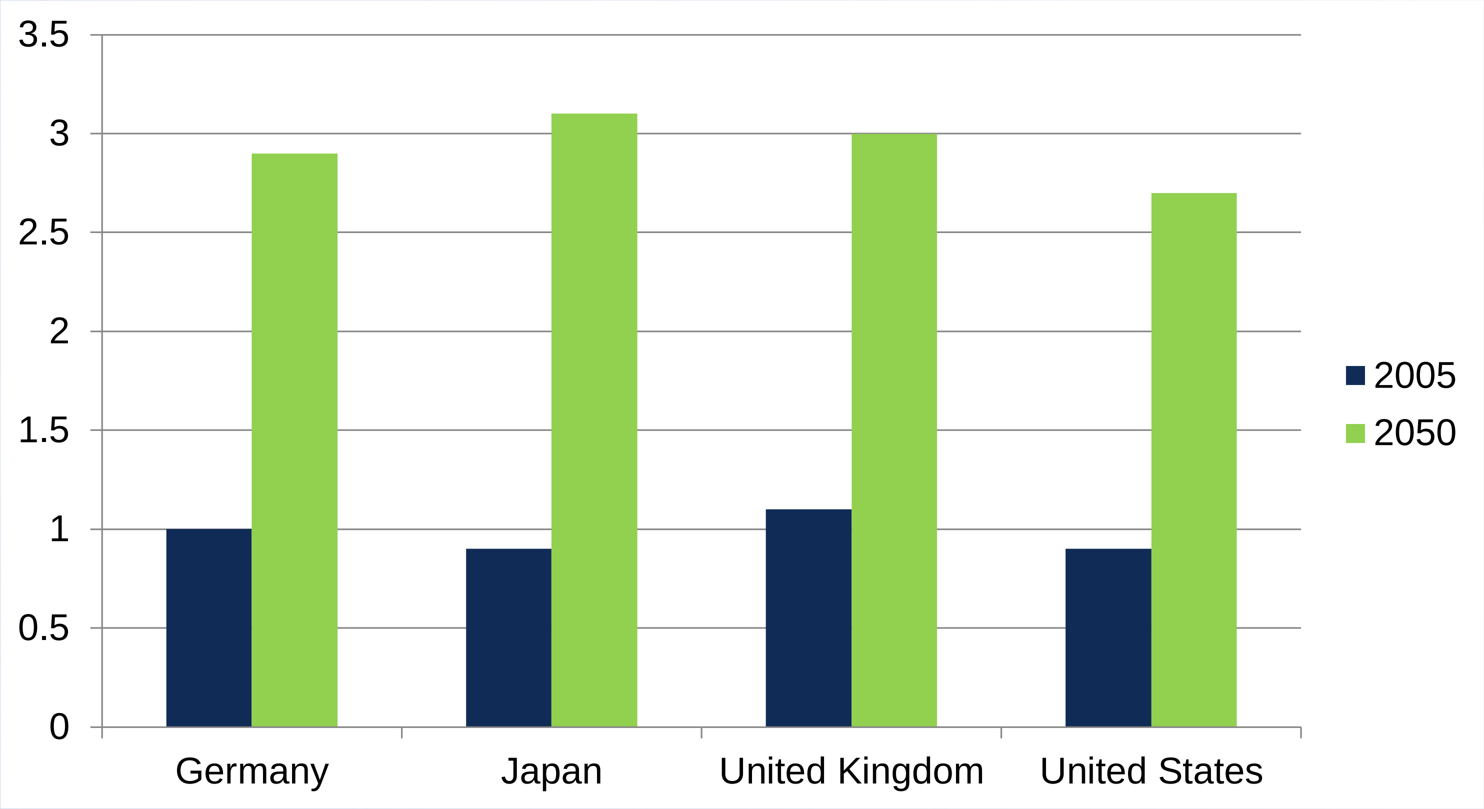
- Services are expensive
- Medicare does not cover and few people have private insurance coverage
- Routine catastrophic costs that impoverish people who have been independent all their lives
- Primary source of financing is Medicaid, a means-tested welfare program
- Bias towards nursing homes, rather than home care
- With aging population, public and private spending sure to grow

Financing for Long-Term Care: 1988 and 2011, ($ billions)

Financing Source	1988	2011
Medicaid	24.4	136.2
Medicare	2.9	62.5
Other payers	5.0	9.7
Out-of-pocket	15.7	45.5
Private insurance and other private	4.0	24.4
Total	52.0	278.3

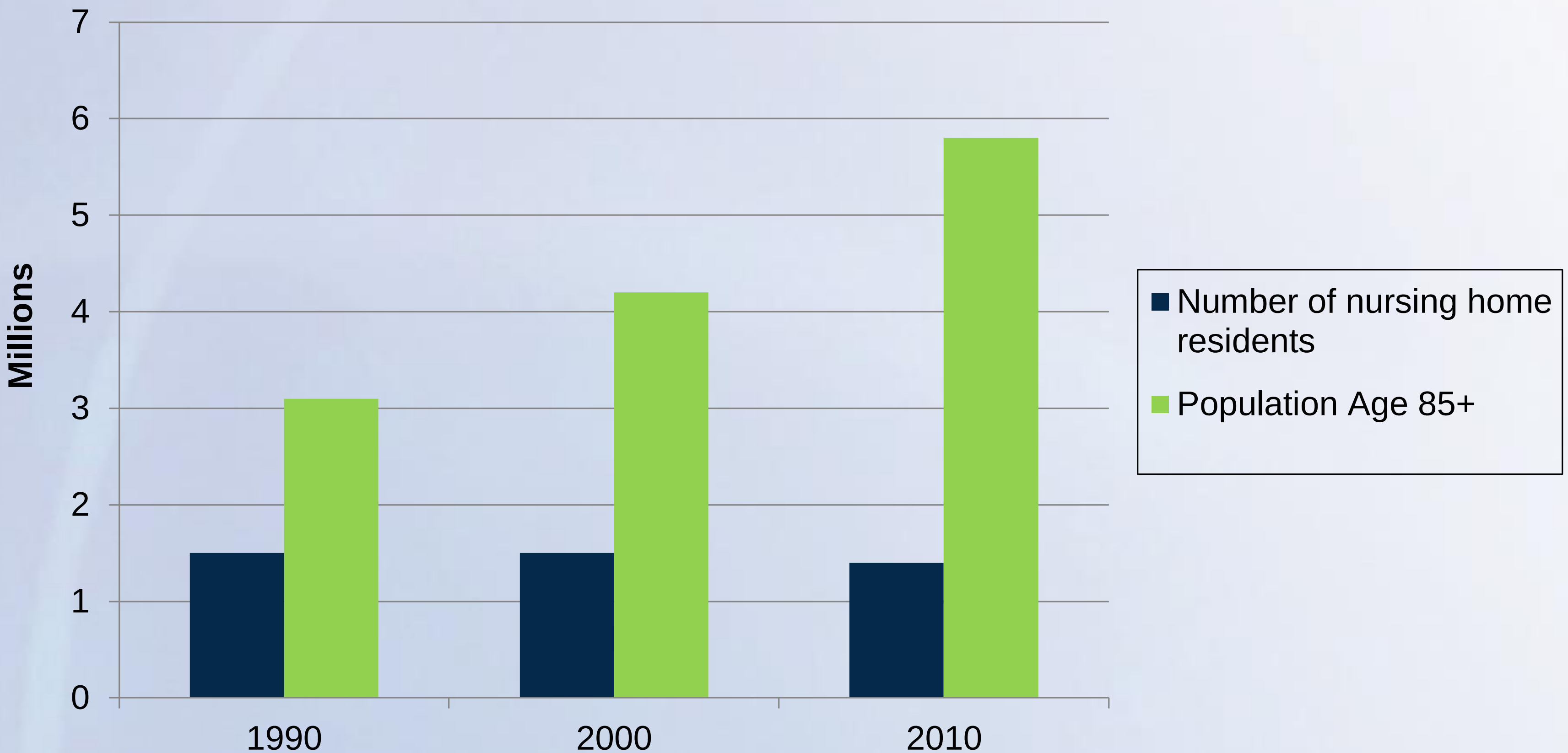
Source: Truven Health Analytics, various years; Centers for Medicare & Medicaid Services, various years; National Health Policy Forum.

Projected Public Long-Term Care Expenditures (All Ages) in Selected Countries, as a Percentage of GDP, 2005 and 2050



Source: OECD, 2006.

Population Age 85 and Older and Number of Nursing Home Residents, 1990, 2000, and 2010



Source: U.S. Census Bureau, National Center for Health Statistics, and American Health Care Association

Medicare Post-Acute Care Expenditures (in $ billions)

Service	1988	2011
Skilled Nursing Facilities	1.0	30.3
Home Health	1.9	18.5
Hospice	0.0	13.7
TOTAL	2.9	62.5

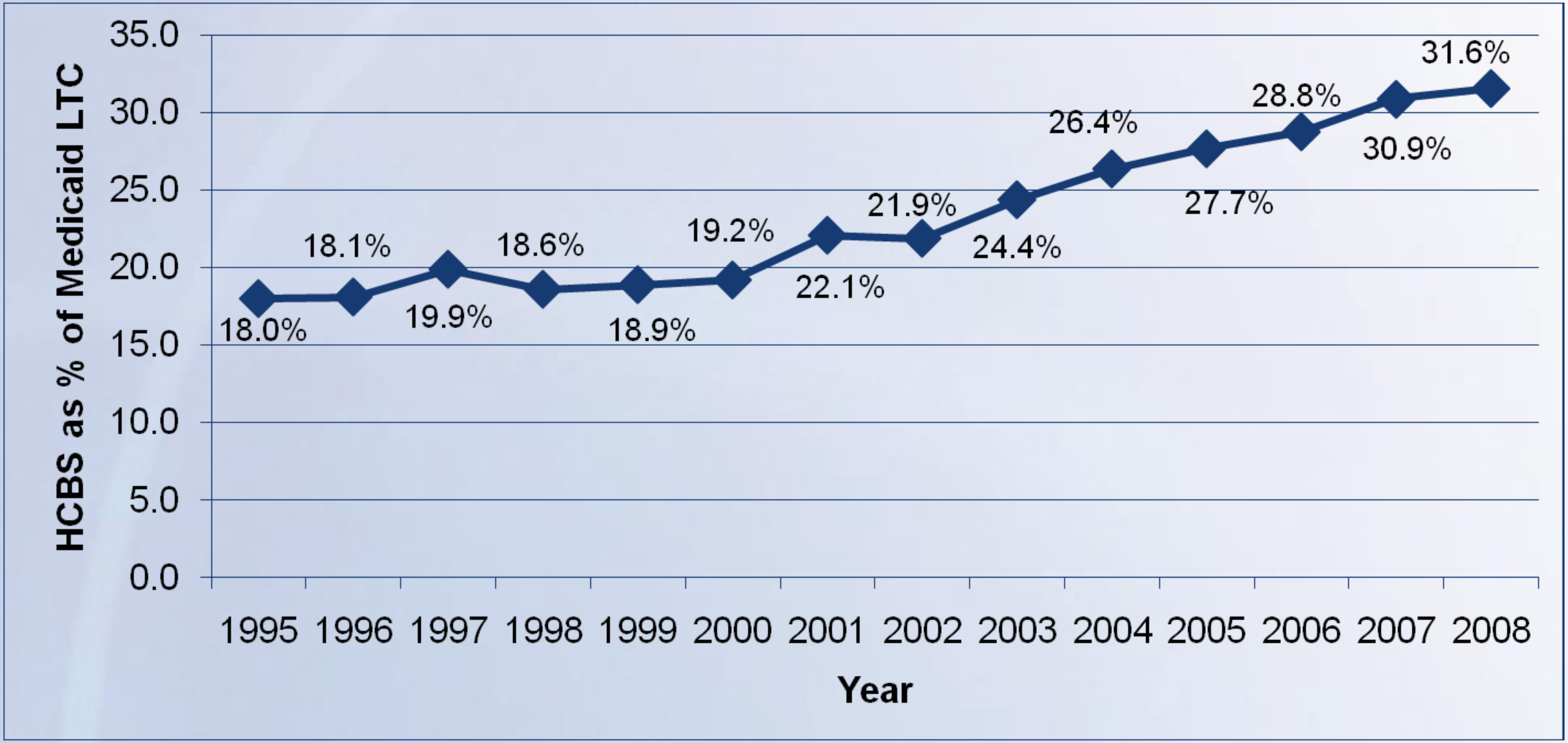
Source: Centers for Medicare & Medicaid Services, 2012

Medicaid Expenditures for LTC, 1988 and 2011 (in $ billions)

Type of Service	1988	2011
Non-institutional LTC Services	2.4	64.3
Nursing home	14.6	52.4
ICF-IID	5.9	13.3
Mental health facilities and mental health DSH	1.5	6.2
Total LTC	24.4	136.2
Total Medicaid	58.6	410.9

Source: Truven Health Analytics, various years

Percentage of Medicaid LTSS for HCBS, for Aged and Disabled, 1995–2008



Source: Thomson Reuters, various years.

Medicaid Transitions by Age and Transition Status

Medicaid Transition Measure	<65 in 1996 (%)	65+ in 1996 (%)	Total (%)
Non-Medicaid at Baseline	6.9	12.9	9.6
Medicaid at Some Time During Study Period	68.0	61.9	64.2
Total Population at Baseline	6.6	11.8	9.0

Source: RTI International analysis of Health and Retirement Study merged with Medicare data.

Medicaid Transitions by Use of LTSS

Spend Down Measure	No LTSS Use (%)	Only Personal Care (%)	Only Nursing Home Care (%)	Nursing Home & Personal Care (%)	Total (%)
Non-Medicaid at Baseline	46.1	7.1	33.1	13.7	100.0
Medicaid During Study Period	48.0	7.0	31.1	13.2	100.0
Total Population	45.4	7.3	33.3	14.0	100.0

Source: RTI analysis of Health and Retirement Study merged with Medicare data.

Financial Status of Long-Term Care Medicaid Transition Population at Baseline, by Quartiles, 1996

	Total Assets Less IRAs (%)				
Income Quartiles	$0–38,899	$38,900–111,999	$112,000–251,999	$252,000+	Total
$0–15,939	39.0	17.9	4.8	0.7	62.4
$15,940–31,908	9.8	9.0	6.2	2.2	27.3
$31,909–60,999	2.5	2.6	1.5	1.6	8.1
$61,000+	0.4	0.5	0.3	1.0	2.2
Total	51.7	30.0	12.8	5.6	100.0

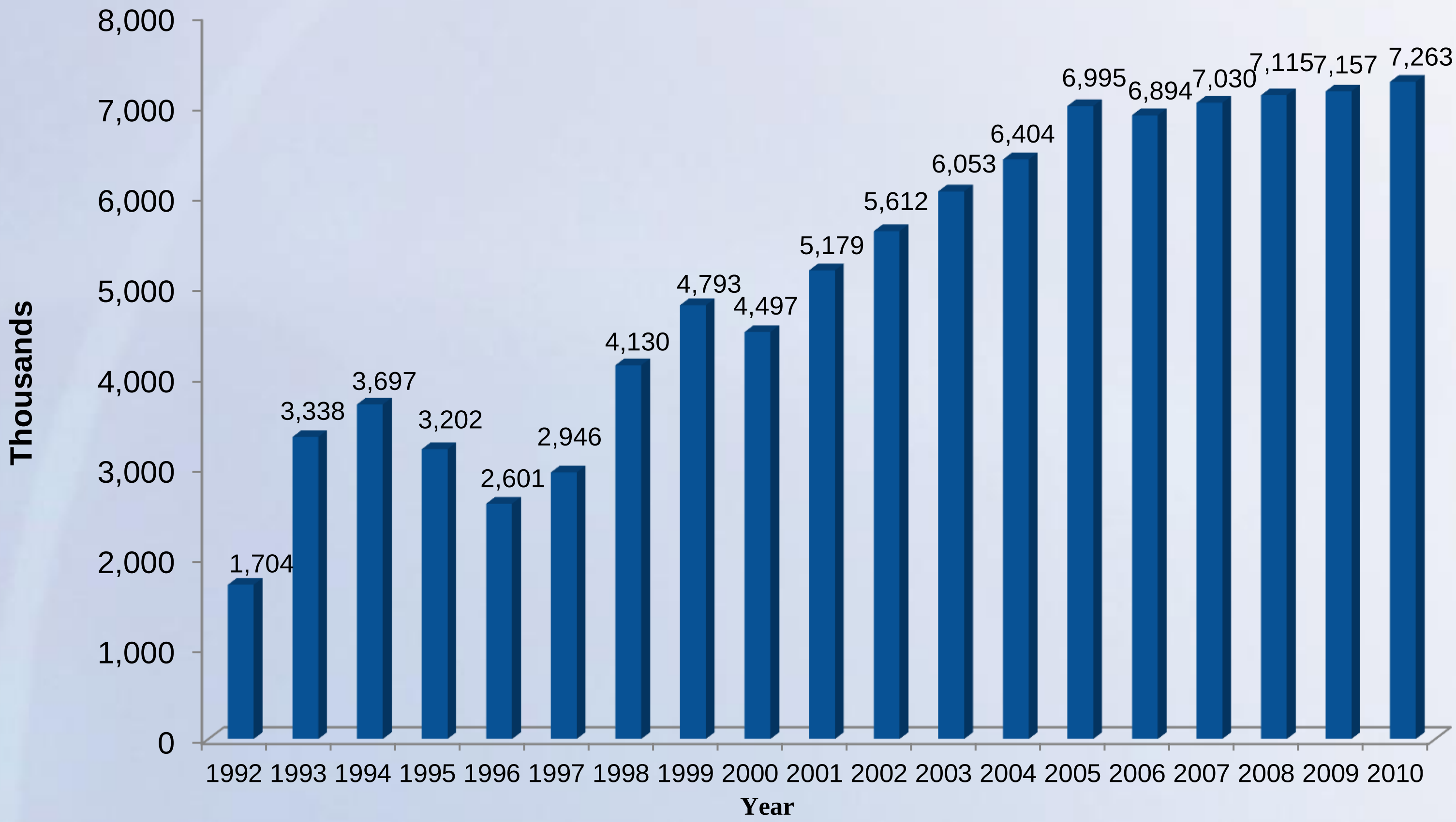
Source: RTI International analysis of Health and Retirement Study merged with Medicare data.

Quartile classes are determined by the income and assets of the total population at baseline.

Transfer of Assets a Small Problem

- Claim by some that large number of people transfer assets to appear artificially poor to qualify for Medicaid
- Transfer of assets is relatively infrequent and usually involves quite small amounts of funds (Bassett, 2004; Lee, Kim and Tannenbaum, 2006; O'Brien, 2005; Norton, 1995; Sloan and Shayne, 1993, Waidmann and Liu, 2006)
- Wiener et al. (2013) found that transfer of assets rate for people who spend down was half the rate of people who do not spend down
- Maximum estimate of asset transfer is about 1 percent of Medicaid nursing home expenditures (Bassett, 2004; Waidmann and Liu, 2006)

Number of People with Private Long-Term Care Insurance, 1992-2010



Source: National Association of Insurance Commissioners, 2011

Private Long-Term Care Insurance

- Dream not matched by reality: 12% of 65 and older; 5% of 45 and older
- Market collapse, especially since recession:
  - Most insurers exit market
  - Most insurers have substantially raised premiums (100% not unusual)
  - Tighten underwriting and reduce benefits
- What's going on? Accurately pricing premiums is impossible
  - Low to negative rate of return on reserves
  - Lower lapse rate than assumed

Options to Promote Private Long-Term Care Insurance: Tax Incentives

- Goal of tax incentives for private long-term care insurance is to make product more affordable
- Tax incentives ineffective in substantially increasing number of people with policies
  - Wiener, Illston and Hanley (1994) found that a 20% nonrefundable tax credit increases the number of people with insurance by a third
  - Nixon (2006) found that offering a state tax incentive did not increase market penetration
  - Kim (2008) found the price elasticity of private long-term care insurance to be -0.08

Tax Incentives for Private Long-Term Care Insurance

- Goda (2010) found that average tax subsidy increased private long-term care insurance coverage rates by only 2.7 percentage points

- Tax loss would not be offset by Medicaid savings
  - Wiener, Illston, and Hanley (1994) found that Medicaid savings would not offset the lost revenue
  - Goda (2010) found that a dollar of state tax expenditure produces approximately $0.84 in Medicaid savings, half of which would result in savings to federal government. State tax incentive would be 100% state funded
  - Wiener, Illston, and Hanley (1994) found that tax incentives are likely to be regressive, flowing mostly to well-to-do and upper middle income people

Partnership for Long-Term Care

- Allows people who purchase state-approved private long-term care insurance to become Medicaid eligible, while keeping more of their assets than usually allowed
- Life-time asset protection without buying a lifetime policy, which no longer exist
- Not succeed in increasing long-term care insurance penetration—about 3.2 percent of 65+ in 4 states with longest experience (California Partnership for LTC, 2010; Guttchen, 2011; Indiana Long-Term Care Insurance Program, 2010; New York Partnership for Long-Term Care, 2010, U.S. Census Bureau, 2011).

Partnership for LTC (cont.)

- Shorter periods of coverage still expensive; 2 year coverage at age 60 with compound inflation was $2,400 in 2010 (Federal Long-Term Care Insurance Program)
- Partnership purchasers have higher income and higher assets (General Accountability Office, 2005)
- Partnerships likely to increase Medicaid expenditures (Sun and Webb, 2013)

Public Long-Term Care Insurance

- Societal responsibility
- Failure of private sector and means-tested programs to solve problems
- Long-term services and supports should be treated same as medical care
- Mandatory public long-term care insurance, financed by combination of taxes and premiums
  - Netherlands, Germany, and Japan; starting in Taiwan and Korea, even movement in England
  - Non-means tested programs in Scandinavia
  - Hawaii Long-Term Care Commission propose bare bones program, which state is investigating

Which Way for Long-Term Services and Supports Financing?

- Increasing number of older people means higher spending, but it is a manageable problem
- Medicaid
  - Liberalize financial eligibility criteria
  - Raise personal needs allowance in nursing homes
  - Expand home and community-based services
- Private Long-Term Care Insurance
  - Current model is not viable for more than small percentage of population
  - Model based on predicting the future 30 years from now is doomed

Which Way for Long-Term Services and Supports Financing?

- Strengthen regulation, especially inflation protection
- Tax incentives and Partnership for LTC not work
- Perhaps try to integrate into acute care insurance
- Front-end private insurance coverage not workable without very substantial subsidies

Public Insurance

- Failure of private insurance and limits of Medicaid leads to public insurance
- Join Hawaii in considering mandatory public insurance program for the state
- State examples may be necessary for national action, like state experiments in health insurance

Contact Information

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Long Term Care Financing

Prepared for:
Joint Legislative Executive Committee on Aging and Disability

July 14, 2014

Genworth®

Company Confidential

Barriers and Solutions For Consumers

What Are People Saying?

Why Don't They Plan?

Top 5 Barriers Consumers Tell Me They Have

1. It won't happen to me – It will as the caregiver or recipient
2. My family will take care of me – The average family has 1.7 children and they don't live near the parents
3. I can afford this myself – The majority of people can't and don't run the numbers
4. It's in my Health Plan – Health care is not long term care
5. The Government will figure it out

Who Pays?

The Majority of consumers don't know that there are only 4 ways to pay

1. Family
2. Medicare/Medicaid
3. Self Funding
4. Private Insurance

Barriers and Solutions For Consumers

What Should People Do?

4 Principles

1. **Think past the present** – Plan now and avoid an unexpected impact to your retirement strategy
2. **Enlist an expert** – A good financial professional helps brings factual structure and planning
3. **Consider Family Realities** – Don't assume what works today will work in 10 to 20 years
4. **Put It in Writing** – Monitoring your changing goals and adjusting the plan accordingly helps you stay on track

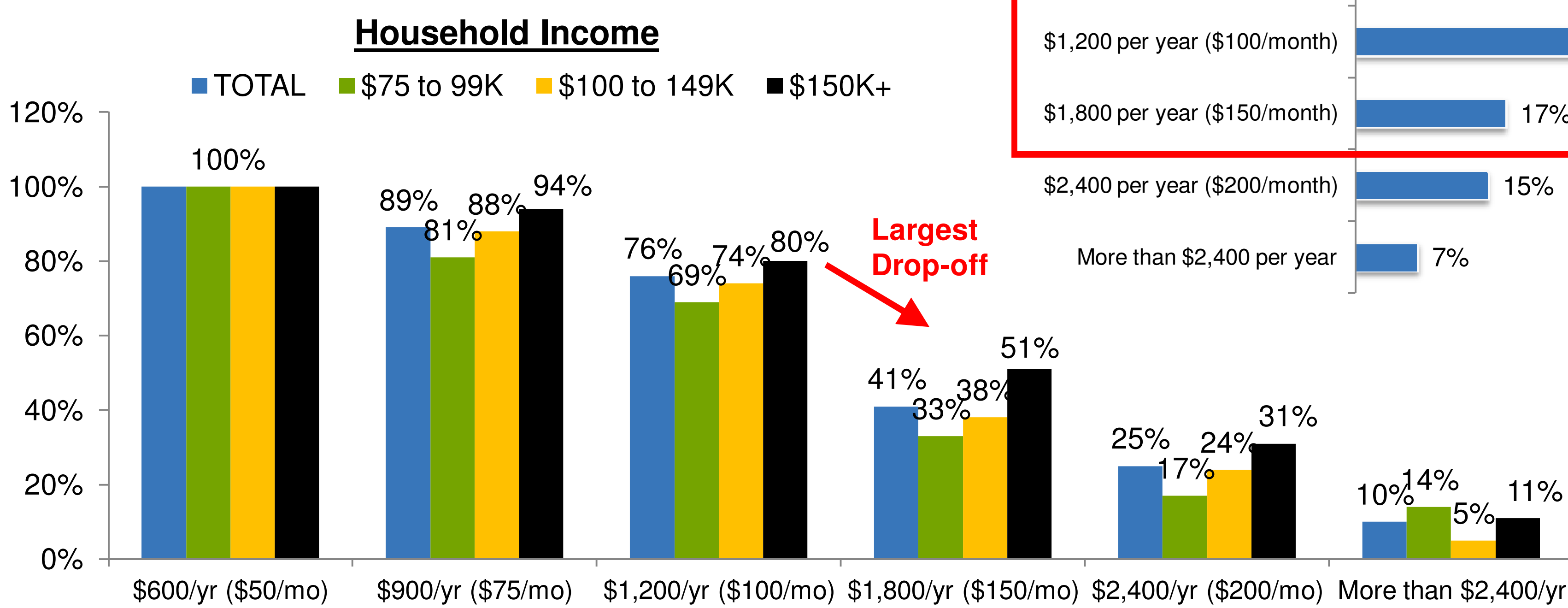
Participation in Private LTC Financing Solutions

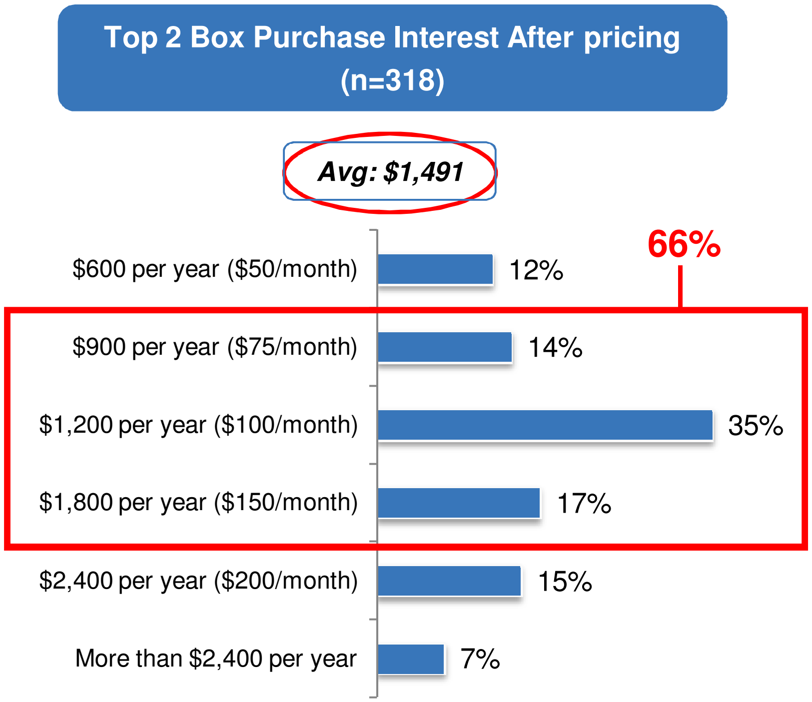
Low Income Currently Disabled (Any Income Level)	Middle Income	High Income
• Generally, Can't Afford Private Insurance, or Not Insurable Risk • Preserve The Viability Of The Existing Medicaid Program For Those Individuals Who Truly Need It	• Requires Simpler, More Affordable Products • Increased Participation Helps Avoid Reliance on Public Programs • 'Entry" Level Options (Some is Better than None)	• Multiple Financing Options Available • Some Participate (Effective Risk Transfer) • Combination Products & LTC Insurance

Genworth

Consumers Want to Spend $100 / Month

Two-thirds of interested consumers want to pay between $900 and $1,800 per year. The proportion of consumers willing to pay different premium amounts is similar across household income levels.





Q18_V. What is the maximum amount you would consider paying for your Long Term Care Insurance coverage?

Consumers Are Looking Online For Info

Consumers most commonly turn to the LTCI provider, internet searches, financial professionals, or their employer for gathering information about LTCI.

In terms of the value of the information gathered, the provider, financial professionals, and employers rank at the top.

	Sources of Information Used	Source Influence – Ranked 1st
Long Term Care Insurance provider	47%	14%
Internet searches	33%	9%
An insurance agent	32%	14%
A financial advisor/representative	31%	17%
Employer resources/HR department	29%	16%
Friends or co-workers	23%	5%
A membership organization	21%	5%
Family	21%	3%
Magazines, newspaper articles, or books	17%	6%
Financial services provider	13%	4%
Seminar or class	8%	2%
Physician/Healthcare professional	8%	1%
Community or religious organization	1%	--
Something else	3%	2%

Turning to an insurance agent is more common among older consumers.

Ages 40-49: 21%
Ages 50-54: 47%
Ages 55-70: 33%

Individual Policy holders are also more likely to have turned to an insurance agent.

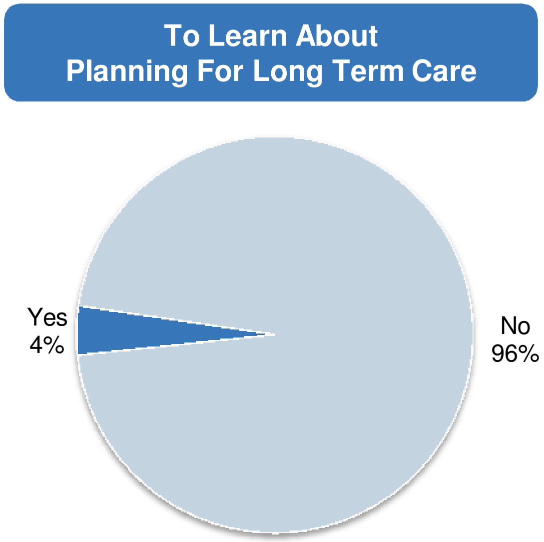
Individual: 38%
Group: 14%

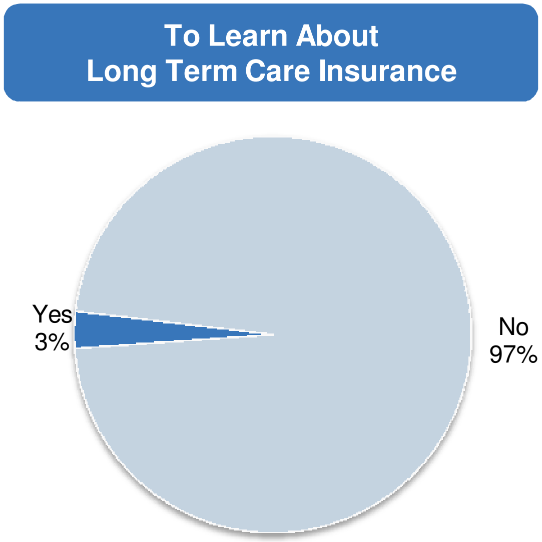
Q26. When engaged in learning about Long Term Care Insurance, what sources did you turn to for gathering information or knowledge?
Q27. Please rank order these sources according to their relative value to your understanding.

Have you used Government resources to help you learn about Long Term Care or LTCI?

Government resources are rarely used for learning about LTCI

- Among the few who have used government resources, mentions include Veterans Affairs, Medicare/Medicaid, and state resources in NY, IN, KS, WI, CA, WA, CO, and MO.





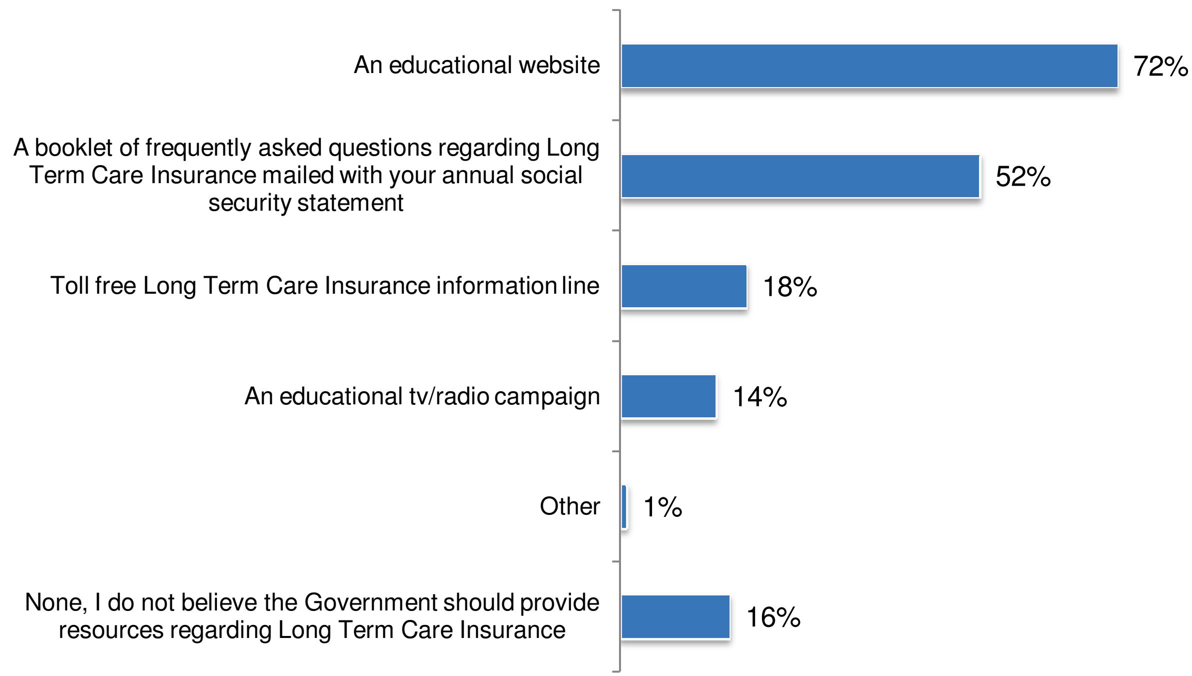
CEO_1. Have you used any Government (state and/or federal) resources to help you learn about the need to plan for long term care?

CEO_2. Have you used any Government (state and/or federal) resources to help you learn about Long Term Care Insurance?

If the Government were to provide you with resources, which of the following would you find helpful?

An educational website or a mailed booklet of FAQs would be the most helpful government resource on LTCI

– While very few have used the government as a source, a majority are receptive to the idea of getting information about LTCI from the government.



CEO_3. If the Government (state and/or federal) were to provide you with resources to help you learn more about Long Term Care Insurance, which of the following would you find helpful?

LTC Insurance Overview

What LTC insurance provides

Reimburses expenses for assistance with activities of daily living / cognitive impairment

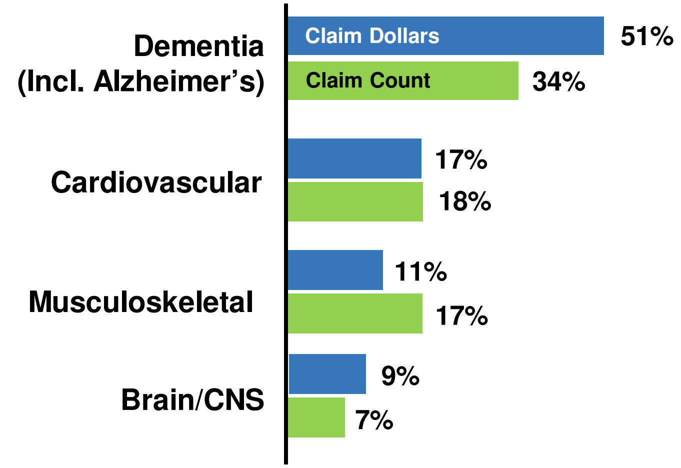
- Helps provide cash flow to pay for services
- Helps preserve assets and estate
- Provides flexibility to choose type of care
- Provides care coordination that can help families navigate LTC service system
- Alleviates burden on family caregivers

Triggers for coverage . . .

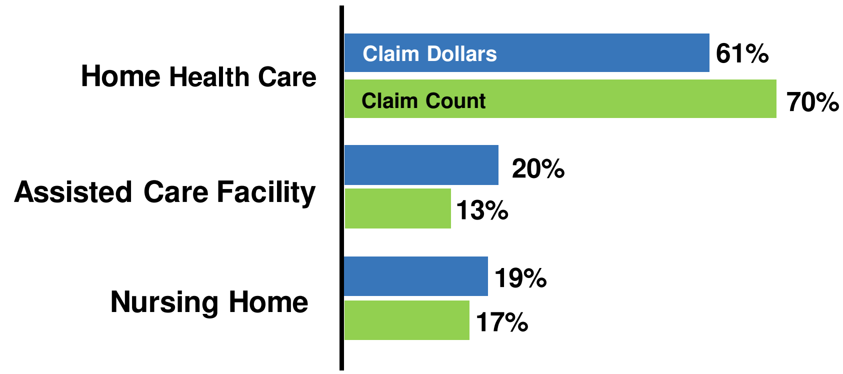
Assistance with 2 or more activities of daily living (ADL) or severe cognitive impairment that requires substantial supervision

- ADLs: Bathing, dressing, toileting, transferring, managing incontinence, eating

Why people claim[1]



Where people claim[2]

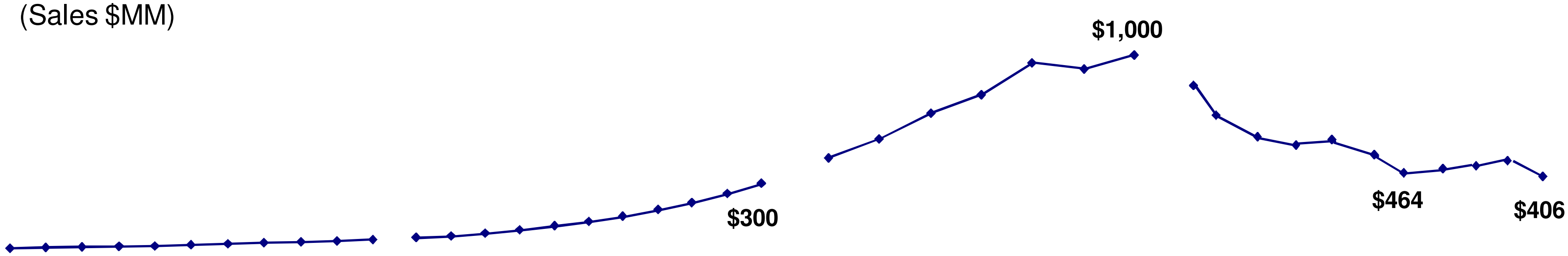


(1) GNW claims experience, all products, 06/30/13

(2) GNW claims experience, reimbursement products, 06/30/13

Industry Evolution

Emerges (1970 – 1985)	Develops (1985 – 1995)	Expands (1996 – 2002)	Corrects (2003 – Present)



2 → 50 carriers (Amex, CNA, Penn Treaty)	~100 carriers (Amex / GE, CNO, Penn Treaty)	~130 carriers (GE, John Hancock, MetLife)	~80 carriers → ~20 carriers (Genworth, John Hancock, Mutuals)
Pioneering players (“Aging demographic”)	**Name brands enter** (Some accept sub-standard)	**Scale players emerge** (Significant growth)	**Rate actions / exits** (Poor experience, recession)

Key reasons why carriers have ceased selling LTC[(1)]

- Capital requirements (23%)
- Product performance and ability to manage rate increases (regulatory uncertainty) (23%)
- Revised risk assessment (12%)
- New management – not interested in LTC (12%)

Primary drivers of product performance…
lapse rate, interest rates, morbidity and mortality

1) “Long-Term Care Insurance: A Product And Industry In Transition,” Presented To NAIC Senior Issues Task Force, November 28, 2012

Proposed Solutions: Knowledge And Advocacy

Education & Awareness Campaigns Should Include Both Public and Private Support

Government and private industry should collaborate to educate consumers about the need for LTC planning

- Include addressing misconceptions about available funding solutions and the likelihood of a future need
    - Address role of Healthcare, Medicare and Medicaid in funding LTC Services
- Public service messaging and government-sponsored communications

Increase funding for programs, such as "Own Your Future" (that combined public and private resources) that have been unfunded, despite successfully increasing consumer awareness and action

72% of Consumers polled by Genworth believe that "An educational website or a mailed booklet of FAQs would be the most helpful government resource on long term care insurance"

"Bending the Cost Curve"

Address Underlying Drivers of LTC Costs

Increase funding for Alzheimer's research.

- 6^{th} leading cause of death but NIH funding for Alzheimer's research – $480MM in 2011 (less than 1/10th the $6.0B spent on cancer research funding)

Expand programs that promote and incentivize healthy aging among older Americans through Administration on Aging (AoA) funding and support from the National Council on Aging (NCOA).

Incent innovation for assistive home technologies to help Americans "age in place" at home

Strengthen Caregiver Supply And Support

Build and maintain an adequate, skilled, and diverse paid workforce

- Ratio of Care Recipients to Caregivers Increasing

Improve recruitment, retention, and training of the health and long-term care workforce to provide care for the growing population of older people and people with disabilities

Develop community-based care and information exchange to help support long distance care giving (adult children)

- Empower family caregivers

Proposed Solutions: LTC Funding Expansion

All Use Of Tax Qualified Funds - 401(k), IRA, 403(b)

Allow favorable tax treatment of distributions to fund private long term care insurance or direct funding of long term care supports and services through qualified accounts

- Expands participation…Number and Lower Age
- Loss of tax revenue may be offset by Medicaid savings

Make LTCI Available to Purchase Through Cafeteria Plans

LTC insurance is among menu of benefits available through employers, with premiums excluded from gross income.

- Expands Participation
- Visibility – Increases awareness of LTC insurance as a necessary benefit
- Employer Engagement
- Leverage – exclusion from gross income allows more money to go toward funding coverage
- Will require changing IRS Code Section 125

Proposed Solutions: Collaborative Financing

Coverage

Public and Private resources share in the risk

- Establishment of public reinsurer focused on "tail risk"
- Broader coverage reduces anti-selection risk, better risk pool

Incentives: Legislation supporting tax incentives

- 73% of consumers polled by Genworth indicate that tax incentives would increase likelihood that they would purchase insurance

Cost of Care

Share learnings from public programs and private insurance to improve reliability of data and encourage market participation

- Company information on cost of care, claims drivers
- Analyze Medicaid spending to help private industry identify solution sets to minimize Medicaid expenditures

Care Delivery

Bring together public and private resources to address the issues affecting care delivery and associated costs

- Qualified Worker Shortage
- Transitions through care delivery settings
- New care delivery models

LTC Partnership Program Washington State

July 2014

Catherine Fisher
Aging and Long-Term Support Administration
Home and Community Services Division
Department of Social and Health Services

LTC Partnership – Background

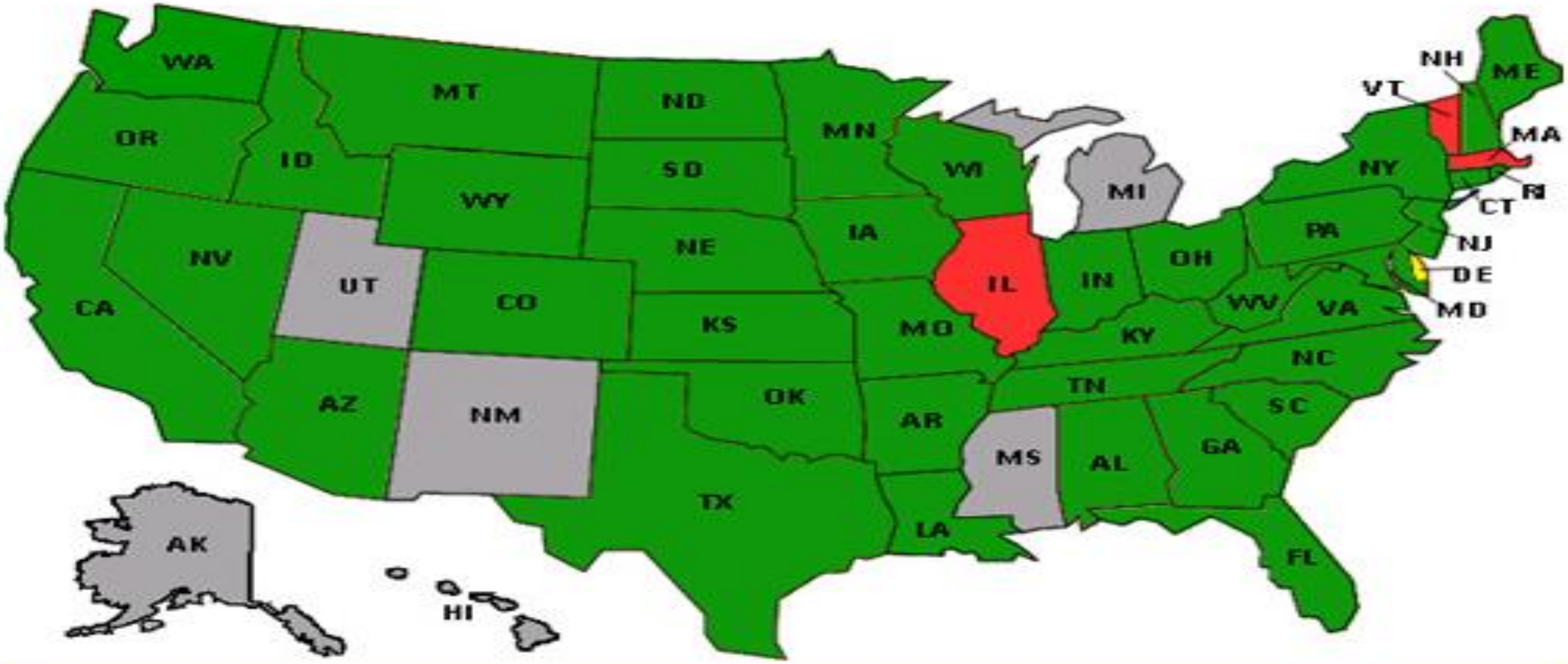
- Section 6021 of the 2005 Deficit Reduction Act expands LTC Partnership opportunities for States by effectively lifting the moratorium on expansion imposed by the Omnibus Budget Reconciliation Act (OBRA) 1993.
- DRA envisaged a unique Medicaid/private insurance model designed to attract consumers who might not otherwise purchase LTC insurance by allowing them to protect a specified level of assets and still qualify for medicaid.
- DRA also allowed those protected assets to be protected from estate recovery provisions after the death of the client.

LTC Partnership – Enabling Legislation for WA State

- In 2008 and 2011, the legislature passed legislation enabling the Insurance Commissioner's office to adopt the provisions of the NAIC long term care Act and model their LTC regulations by rule as required under the DRA.
- In December 2011 CMS approved our state plan amendment.
- Implementation was a cross administration team effort involving many players: Health Care Authority, OIC, ALTSA, State legislature and budget office, insurance companies and agents and the Consumer.

THE PARTNERSHIP STATES

The Federal Deficit Reduction Act of 2005 allows states to have a Partnership program to provide asset protection for those who buy Partnership qualified long term care insurance policies.



Approved State Plan Amendment

State Documents Available

Policies for Sale

State Plan Amendment Submitted

No documents available for these States

LTC Partnership – How does it work?

- Policy provides $ for $ asset protection:
  - If policy pays out $100,000, the consumer can protect $100,000 in assets
- Protected assets are exempt from Estate Recovery.
  - For example, if consumer protects their primary residence, then the home may pass to their heirs without an estate recovery lien.

LTC Partnership – Who is eligible?

- Must be a resident of WA State when coverage becomes effective under the policy.
- The policy issue date must be after December 1, 2011 (when our SPA was approved).
- The policy must have been approved as a partnership policy by the OIC under Chapter 184-83 WAC.
- The policy must include inflation protection (varies based on the age of the insured).
- The consumer must still meet all other Medicaid eligibility criteria when/if they apply.

LTC Partnership – who should buy?

- Consumers with assets or a primary residence they want to will to others.
- Consumers who want the benefits of paying privately for nursing home care, but need the assurance of the medicaid safety net in case they exhaust policy benefits.
- Not a good fit for low income families who would already qualify for medicaid.
- Not a good fit for high income families who can afford to pay privately for care.

LTC Partnership – Benefits

- Helps clients conserve resources and not have to spend down to the current medicaid asset limits:
  - Single: $2000
  - Married couple: $55,016
- Discourages impermissible transfers of assets to qualify for Medicaid.
- Consumers can protect assets for estate planning and inheritance purposes.
- Portability – policies sold in one State are accepted in any other partnership State
- Help States offset rising Medicaid costs for LTC by shifting costs to private insurance – delays clients coming on to medicaid while the partnership is paying out, which offsets medicaid expenditures.

LTC Partnership – Example

Joe owns his own home worth $170,000 and has $60,000 in investment accounts. He has a partnership policy worth $200,000 which has paid out $55,000 to date for in-home care.

Joe has two choices:

1) Joe's home is exempt for medicaid eligibility but he could choose to 'protect' his home so he can will it to his children. He would have to 'spenddown' $58,000 in assets to be eligible for medicaid.

OR:

2) He could protect $55,000 of his $60,000 in his investment accounts. His policy would only have to pay out $3000 more for him to be eligible for Medicaid since there is a $2000 resource limit.

As the policy continues to pay out, he could then protect equity in his home.

Moving Forward – what next?

Some things to think about……….

- Marketing and education campaign?
  - Consumers do not believe this is ‘real’ – how can we help educate Washingtonians about this option?
- Offer to state employees?
  - Is this an option moving forward?
- Advertising – what is the right age to consider purchasing LTC insurance? What are the real costs of not buying LTC insurance?

LTC Partnership – More Info

- Alliance for Health Reform – Long-term care Partnerships: An update March 2007:

http://www.allhealth.org/Publications/Long-term_care/Long_Term_Care_Partnerships_53.pdf

- EAZ manual material for staff and consumers:

http://www.dshs.wa.gov/manuals/eaz/sections/LongTermCare/LTCPartnershipMainPage.shtml

http://www.dshs.wa.gov/manuals/eaz/sections/LongTermCare/LTCpartnership.shtml

http://www.dshs.wa.gov/manuals/eaz/sections/LongTermCare/LTCpartnershipFAQ.shtml

LTC Partnership – More Info

- Guide to Long Term Care

http://www.guidetolongtermcare.com/partnership.html

- CMS Advisory on LTC Partnerships

http://www.cms.gov/Regulations-and-Guidance/Legislation/DeficitReductionAct/downloads/BackgrounderPartnership.pdf

The Impact Of LTC On States And The Role Of LTC Partnerships

PHYLLIS SHELTON *is the president of LTC Consultants, which she founded in 1991 and which specializes in long term care insurance training and marketing materials. Her organization has trained almost 40,000 agents and conducted 2,020 employee education meetings in 2002 for the federal LTC insurance program, as well as 100 meetings for the state of Tennessee enrollment.*

In addition to marketing a long term care insurance selling system, LTC Consultants provides product consulting and sales training to insurance companies, independent and captive insurance agents and brokers, banks and long term care providers.

Shelton has spoken to literally every major industry group including, most recently, MDRT, LIMRA and the Society of Financial Service Professionals. She is a frequent contributor to industry publications and is the author of two books, "Long Term Care: Your Financial Planning Guide" and "Worksite Long Term Care Insurance Toolbox," which was recently released (this article is an excerpt from Chapter 3).

Shelton can be reached at LTC Consultants, 108 Rhoades Lane, Hendersonville, TN 37075. Telephone: 615-590-0306 or 888-400-1118. Email: ***ltcshelton@aol.com****.*

Medicaid is destroying state budgets like a computer virus, and it is a driving force behind the budget shortfalls that most states are facing today.

- ✔ State administered Medicaid is the nation's primary funding source for many needing long term care; in 2008, 42 percent of the $215 billion spent for long term care services in this country was paid by Medicaid.[1]
- ✔ Medicaid consumes an average of 20 percent of state budgets today[2] and that is projected to grow to 35 percent by 2030.[3]
- ✔ The biggest driver behind the growth in the Medicaid budget is long term care, which consumes one-third of our Medicaid dollars, and get this—by 2030, states are expected to be spending *half* of their Medicaid dollars on long term care![4]
- ✔ Last, a typical scenario for states is that almost two-thirds of long term care dollars go to the aged and disabled, who represent only one-fourth of Medicaid recipients.[5]

Most Americans are facing a critical shortage of retirement savings and income. With savings so low and the odds of needing care so high, you can see a high probability of Americans turning to Medicaid for long term care support—unless we do something *fast*.

Consider that we have 155 million people who are employed in the United States and 38 million people over age 65 today.[6,7] This low ratio of taxpayers compared to every resident with the potential of needing Medicaid dollars for long term care creates an untenable situation.

Fortunately, there is a solution to head off this perfect storm, but it will only be successful if we work together—starting today.

As an insurance professional who is equipped to sell long term care insurance, you have a unique opportunity to make a difference by educating your clients about the necessity to plan ahead for long term care.

The Partnership for Long Term Care paves the way for this essential planning. By purchasing a long term care insurance policy that meets their state's LTC partnership criteria, policyholders who need to turn to Medicaid for help can protect assets equal to the benefits they paid for that policy rather than spending down to Medicaid asset requirements, which is about $2,000 for an individual. (To see exact numbers for your state, you can go to my website—*www.ltcconsultants.com*—and click on "2010 Updates," which is located in the lower right corner of the home page, then click on "Medicaid" and you will be taken to a chart with the numbers for all 50 states.)

Quick Medicaid lesson: Some states divide the assets in half and give the healthy spouse that half up to a maximum of $109,560 for 2010. Some states also have a minimum of $21,912 (example: $30,000 in assets means the healthy spouse will get $21,912, not $15,000.) Other states give the healthy spouse the maximum, no questions asked. To know how your state behaves, look at the second column in the chart I referred to earlier, located on my website. If the $21,912 number is there, you know the state applies the minimum as I explained in my $30,000 example. If the $109,560 is there, it's one of the more "liberal" states where the healthy spouse is automatically given that amount.

Regardless of which method is used, after the proper amount is allocated to the healthy spouse, the remaining assets have to be spent down for the spouse who needs long term care—and that's typically $2,000.

Partnership plans change that game significantly, and following are some examples:

Example 1: A single person applying for Medicaid's long term care benefit must spend assets down to $2,000. If he applied for Medicaid after receiving $100,000 in long term care insurance benefits, he would be able to keep $102,000 in assets.

Example 2: A couple with $200,000 and one Medicaid applicant in a state that uses the 50/50 allocation. The healthy spouse could keep half ($100,000) and the spouse who needs long term care would spend $98,000 down to the $2,000 an individual is allowed to keep. If they owned a partnership policy that paid $100,000 in benefits, it would not be necessary to spend down any assets when applying for Medicaid.

Here's where it's really cool. Let's say they have $300,000 in assets. Half of that is $150,000, which exceeds the maximum. So the healthy spouse would keep the maximum of $109,560 *plus* the $100,000 provided by the asset protection feature of the partnership plan for a total of $209,560.

What if the policy had paid out $200,000 or $300,000? You can see there will be many situations in which no spend-down is required for the LTC spouse to move to Medicaid when the benefits in the policy are either exhausted or when the family can no longer make up the difference between what the benefits provide and the cost of care. (Only a couple of states require the benefits to be exhausted before applying for Medicaid—Montana and Oklahoma.)[8]

What are the requirements to have an approved partnership policy? (1) the policy must be tax-qualified per IRC 7702(b); and (2) applicants must purchase an inflation benefit* based on their age at application. The Deficit Reduction Act says it has to be compound up to age 61, some form of inflation ages 61 through 75, and no inflation benefit required at age 76 forward. However, most states have customized that to put in some minimum requirements. For example, here is what Oklahoma did:

- Under age 61: at least 3 percent compounded annually or a rate that is equal to the consumer price index for all items.
- Ages 61 through 75: automatic annual inflation of at least 3 percent simple or a rate that is equal to the consumer price index for all items.
- Age 76 or older: the insured is not required to purchase inflation protection. (The Oklahoma insurance commissioner may approve an alternative index to be used in place of the CPI or alternative inflation programs.)

Now listen carefully. What many people (and producers) don't realize is that if they buy long term care insurance with the appropriate inflation benefit (based on the above figures) from an insurance company that is participating in the Oklahoma Long Term Care Partnership, they receive a partnership policy whether they asked for one or not—and whether or not you, the producer, meant to sell them one. Can you see how most LTC insurance policies sold will eventually be partnership policies?

Almost three million Oklahomans are over age 18, but only 2.3 percent of them (62,000) have long term care insurance.[9,10] This is a typical ratio of people over 18 compared to the number of LTC insurance policies sold in that state, with the highest being North Dakota with about a 7 percent market penetration.

As an insurance professional equipped to sell policies approved by your state's long term care partnership, you have an extraordinary opportunity to change these numbers dramatically over the next decade, while enjoying a tremendous increase in your annual income.

The Partnership for Long-Term Care creates an unprecedented opportunity to educate clients and prospects that buying an approved long term care insurance plan provides private-pay choices when care is needed and asset protection when the insurance benefits run out and the insured has to turn to Medicaid for help.

So here's the deal. Forty-six states went into the new fiscal year with a budget shortfall, which can only increase in severity as more baby boomers access Medicaid for their long term care.[11] Helping as many people in your state as possible get long term care insurance in the next decade can provide much needed relief to the state budget and decrease the pressure to raise state taxes.

"Helping as many people in your state as possible get long term care insurance in the next decade can provide much needed relief to the state budget and decrease the pressure to raise state taxes."

Wondering what your state is doing with the LTC partnership? Most states have implemented a partnership or are in some stage of implementation: Alabama, Arizona, Arkansas, Colorado, Florida, Georgia, Idaho, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Minnesota, Montana, Missouri, Nebraska, Nevada, New Hampshire, New

Jersey, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Vermont, Virginia, Wisconsin and Wyoming.

North Carolina and West Virginia have just filed the State Plan Amendment to their Medicaid program with the Center for Medicare and Medicaid Services (CMS) that is required to implement a partnership, so it will be several months before that approval is granted and the state can open the doors for carriers to send their policies in to be approved as partnership-compliant.

Vermont is still trying to get the state legislation passed to implement a partnership. It will be reintroduced in 2011.

Illinois and Washington haven't submitted a state plan amendment yet, but it looks good that it may happen within a year.

States that aren't close at all yet are Alaska, Delaware, Hawaii, Massachusetts, Michigan, Mississippi, New Mexico and Utah.

You must take a course to be able to sell partnership policies in your state and in other partnership states in which you hold a non-resident license. Please do not treat this course as just a requirement. Approach it as an opportunity to really solidify your foundation of knowledge about long term care and LTC insurance and the surrounding issues!

Most of us don't take a course or study anything for any length of time unless we are forced to do so, so now that you are, make the most of it! You will sell a *lot* more if you are confident in your information, and your clients will love you for selling them the appropriate benefits with the asset protection feature added on as a bonus.

1. Centers for Medicare and Medicaid Services, 2008 numbers, released January 2010.

2. National Association of State Budget Officers, "2008 State Expenditure Report," "Table 28: Medicaid Expenditures" and "Table 29: Medicaid Expenditures as a Percent of Total Expenditures," fall 2009.

3. Deloitte Center for Health Solution, "Medicaid Long-Term Care: The Ticking Time Bomb," 2010.

4. Ibid.

5. Kaiser Foundation State Medicaid Fact Sheets (www.kff.org).

6. Bureau of Labor Statistics, December 10, 2009.

7. Census Bureau.

8. State specific information contained in Phil Sullivan and Phyllis Shelton's "Partnership Certification Training."

9. NAIC, "2009 LTCI Experience Reports."

10. Center of Budget and Policy Priorities, "Recession Continues to Batter State Budgets; State Responses Could Slow Recovery," updated July 15, 2010, Elizabeth McNichol, Phil Oliff, and Nicholas Johnson.

DSHS:
Long Term Care

Presentation to the
Joint Legislative Executive Committee
on Planning for Aging & Disability Issues

September 25, 2013

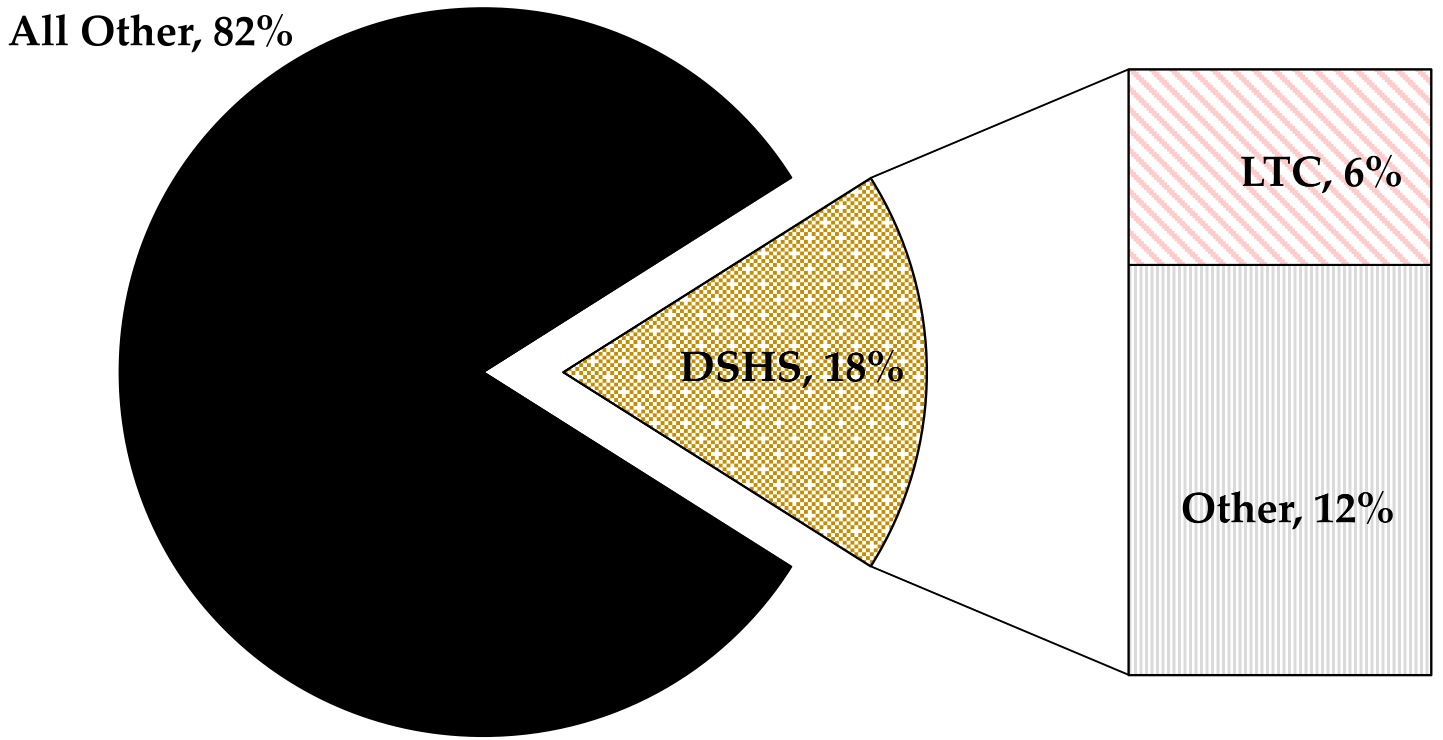
James Kettel, OPR
Carma Matti-Jackson, SCS
Ryan Black, OFM

2013-15 Long Term Care (LTC) operating budget*

$1.8 billion GF-State, $3.8 billion total funds

Joint Legislative Executive Committee on Planning for Aging & Disability Issues

LTC represents about 6% of WA State's general fund

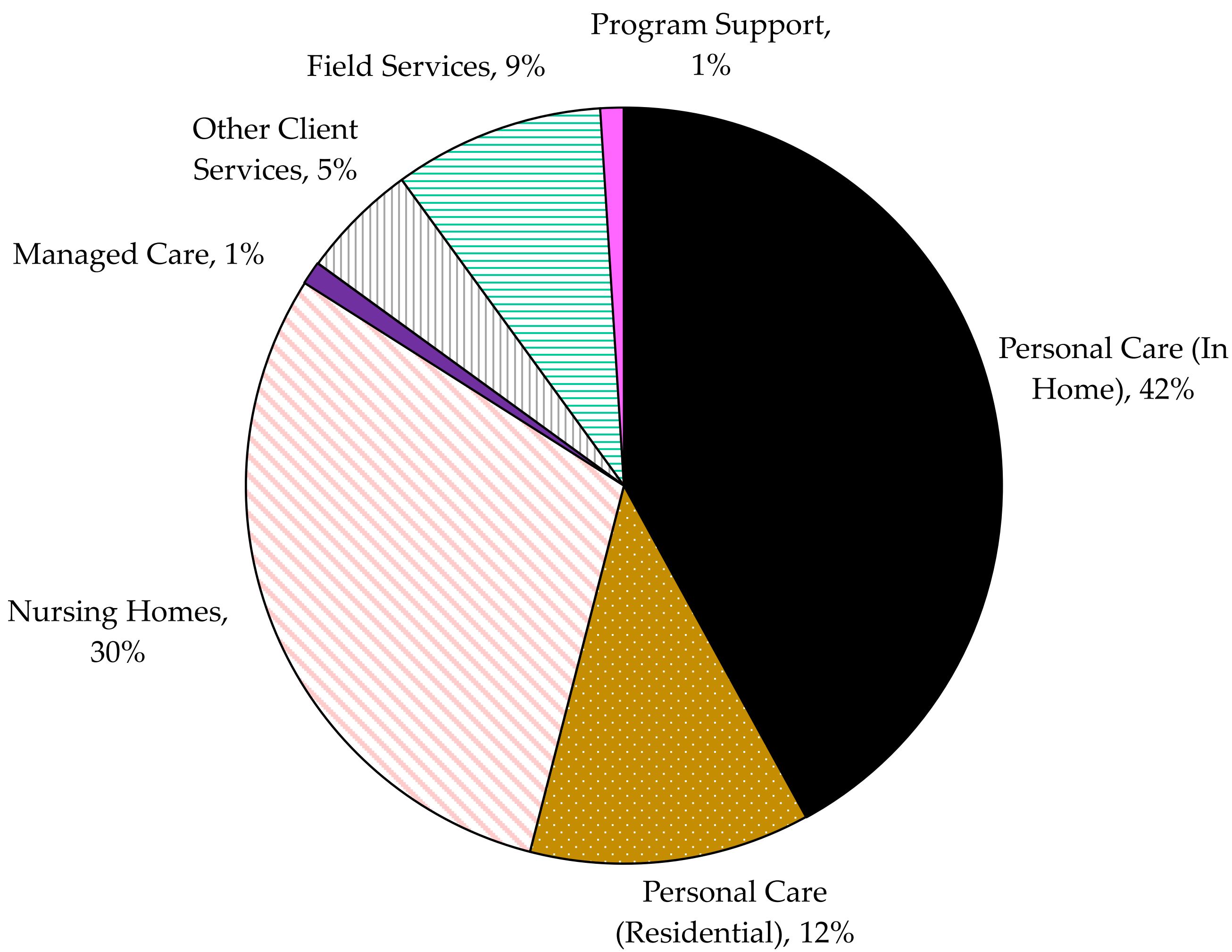


**2013-15 Biennium*
including the 2013-15 Biennial Budget

90% of the LTC budget* pays for client services…

…just over half the budget pays for personal care

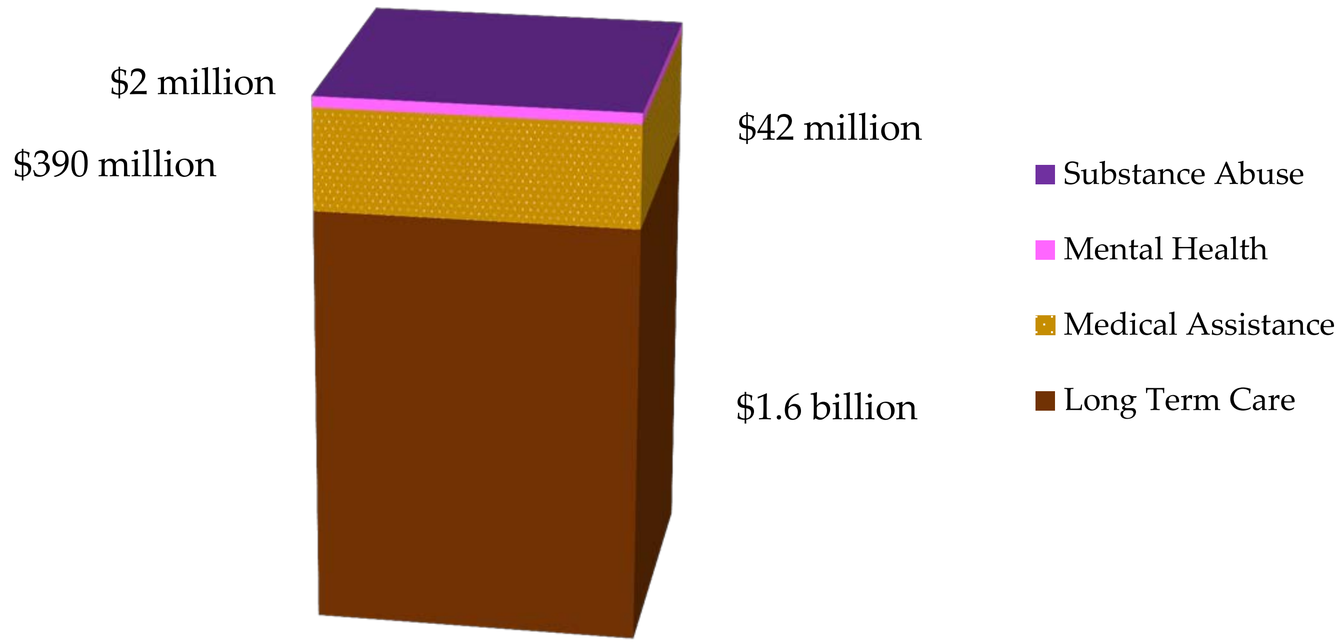
Joint Legislative Executive Committee on Planning for Aging & Disability Issues



**2013-15 Biennium including the 2013-15 Biennial Budget*

Just over $2 billion in total funds are spent each year on DSHS and HCA services for the aging

Joint Legislative Executive Committee on Planning for Aging & Disability Issues



**Fiscal Year 2011; dollars in millions; total funds*
- Data for LTC comes from AFRS, Month-of-Payment;
- All other data comes from Research & Data Analysis, DSHS

The LTC budget has consistently grown…

…but, slower growth in recent biennia

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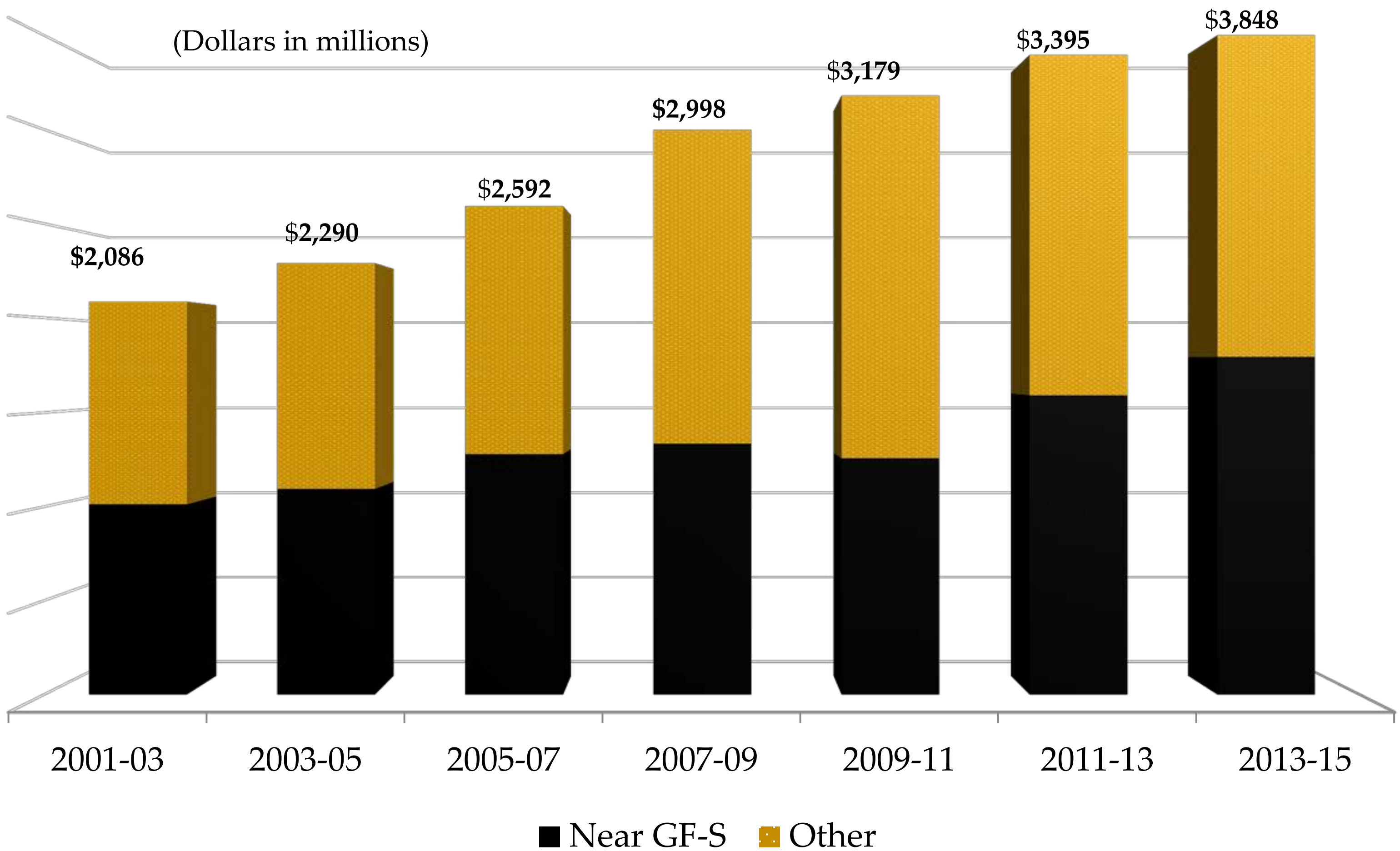

Washington has invested in home and community based services

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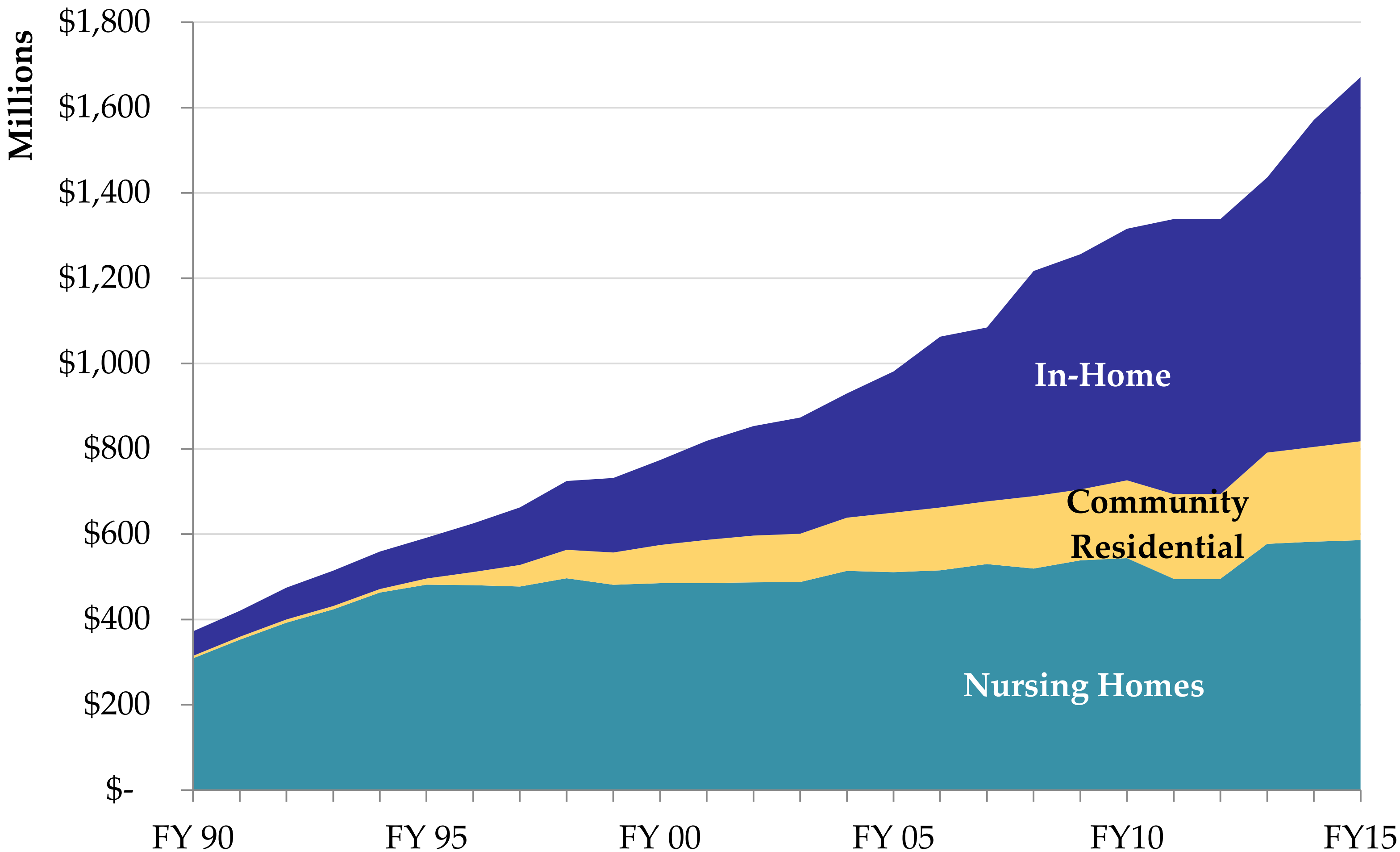

The LTC caseload has consistently shifted…

….*toward community services*

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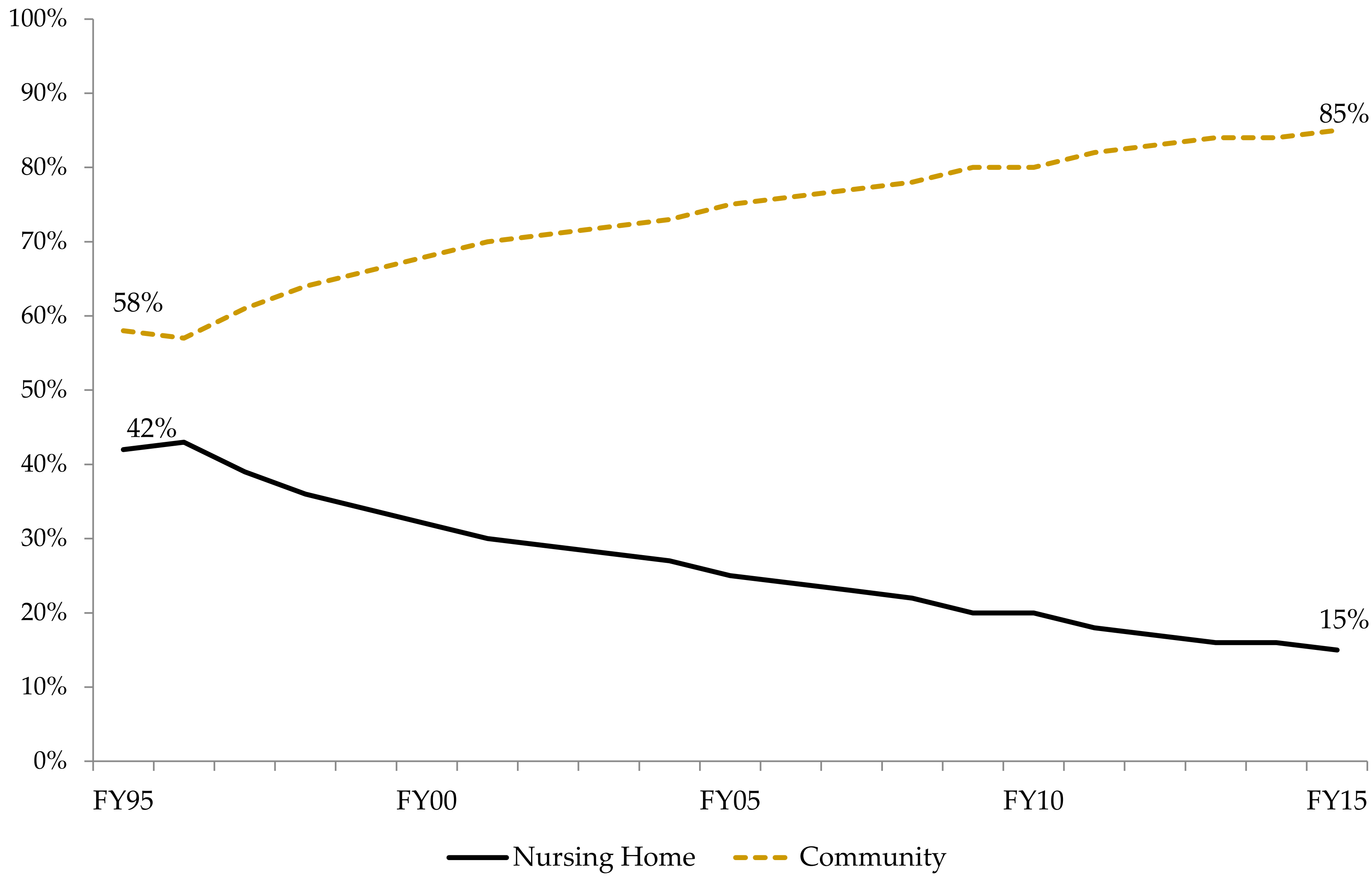
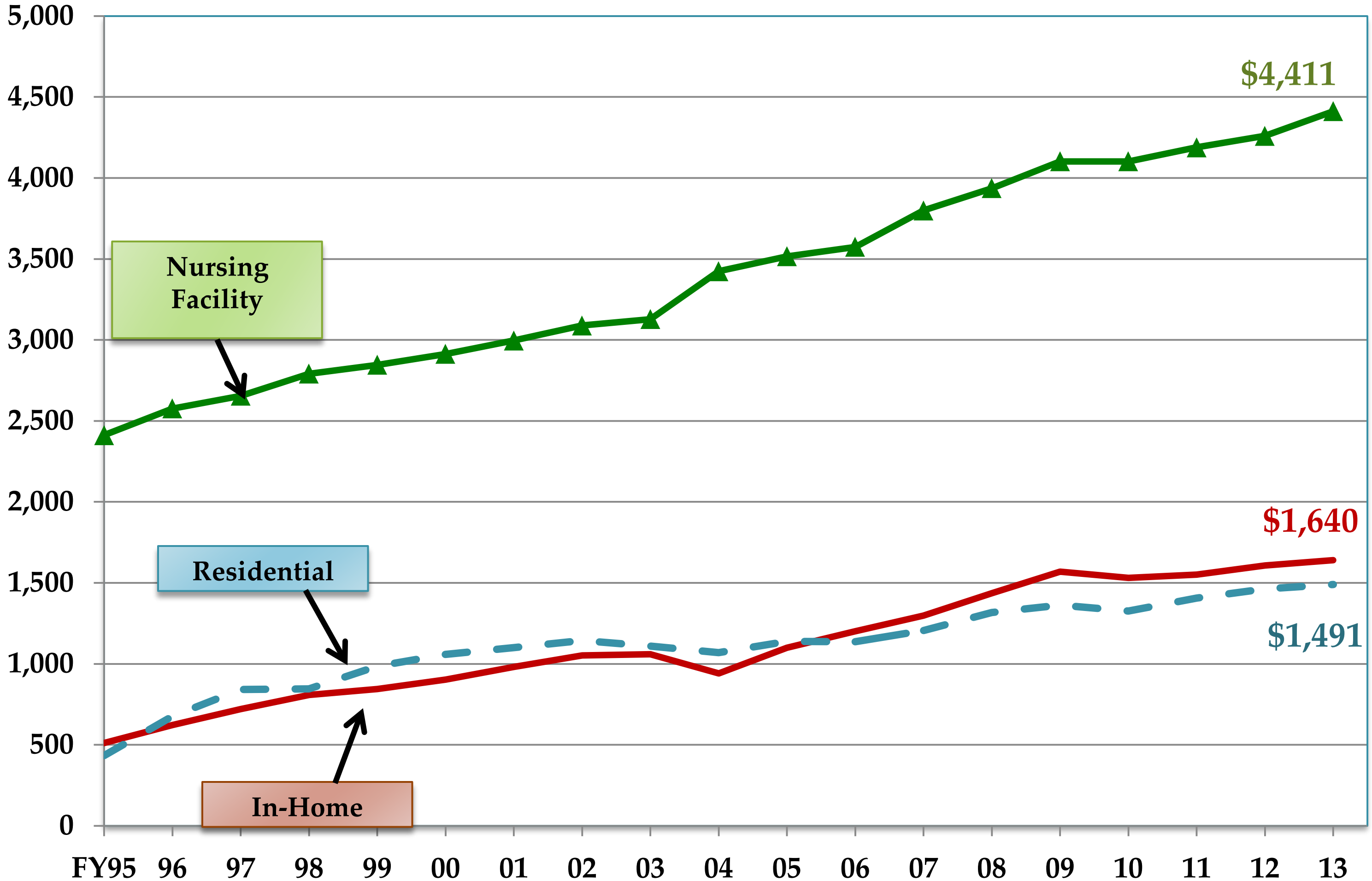


The average monthly cost per client by service setting

Joint Legislative Executive Committee on Planning for Aging & Disability Issues



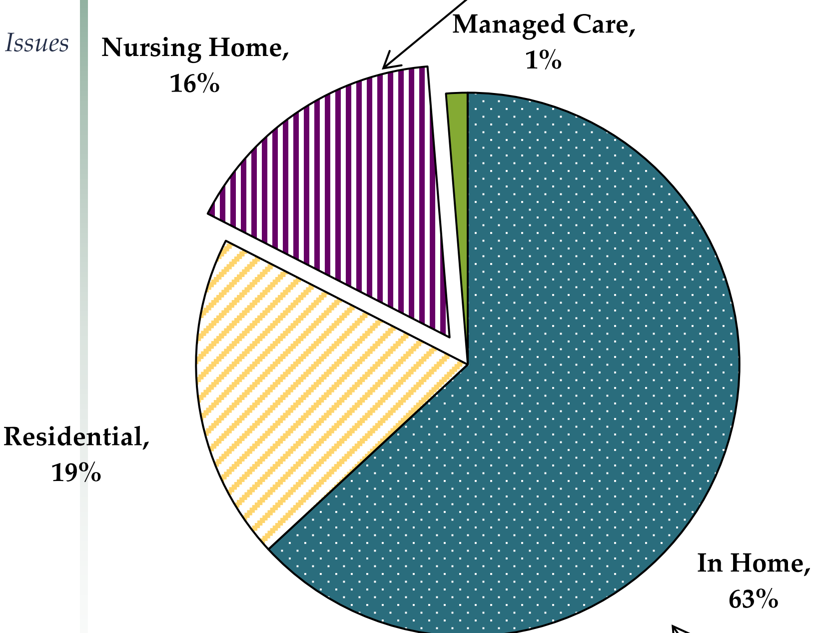
Caseloads compared to expenditures

Joint Legislative Executive Committee on Planning for Aging & Disability Issues

Nursing Homes are the most expensive service setting (10,000 clients: $1.2 B)

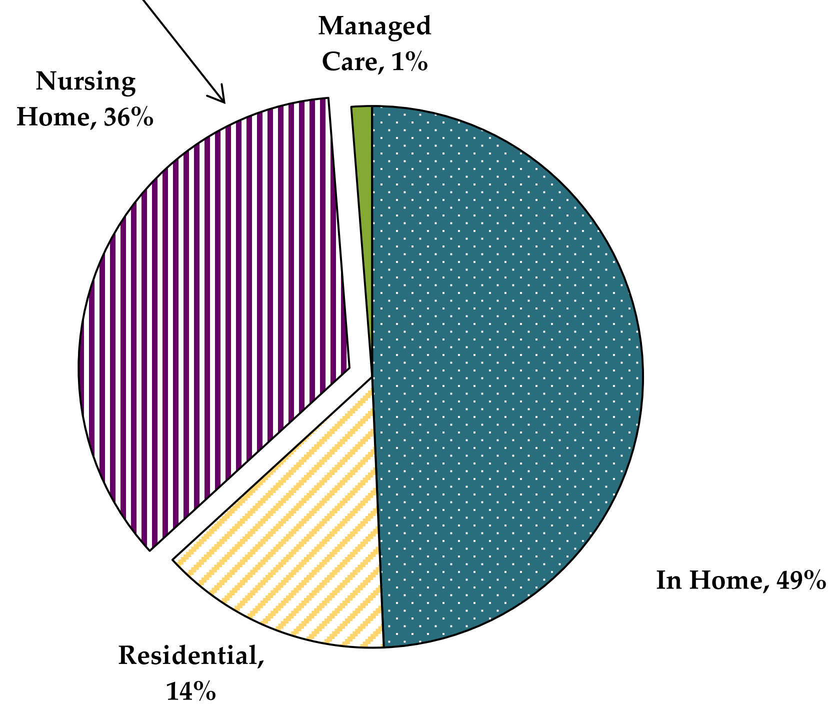
Caseload

(Clients served =61,800 per month)



Budget

(Service Dollars = $3.3 Billion)



In-Home is the largest service setting (39,000 clients: $1.6 B)

The population over 65 has doubled since 1980

*…projected to more than double by 2040**

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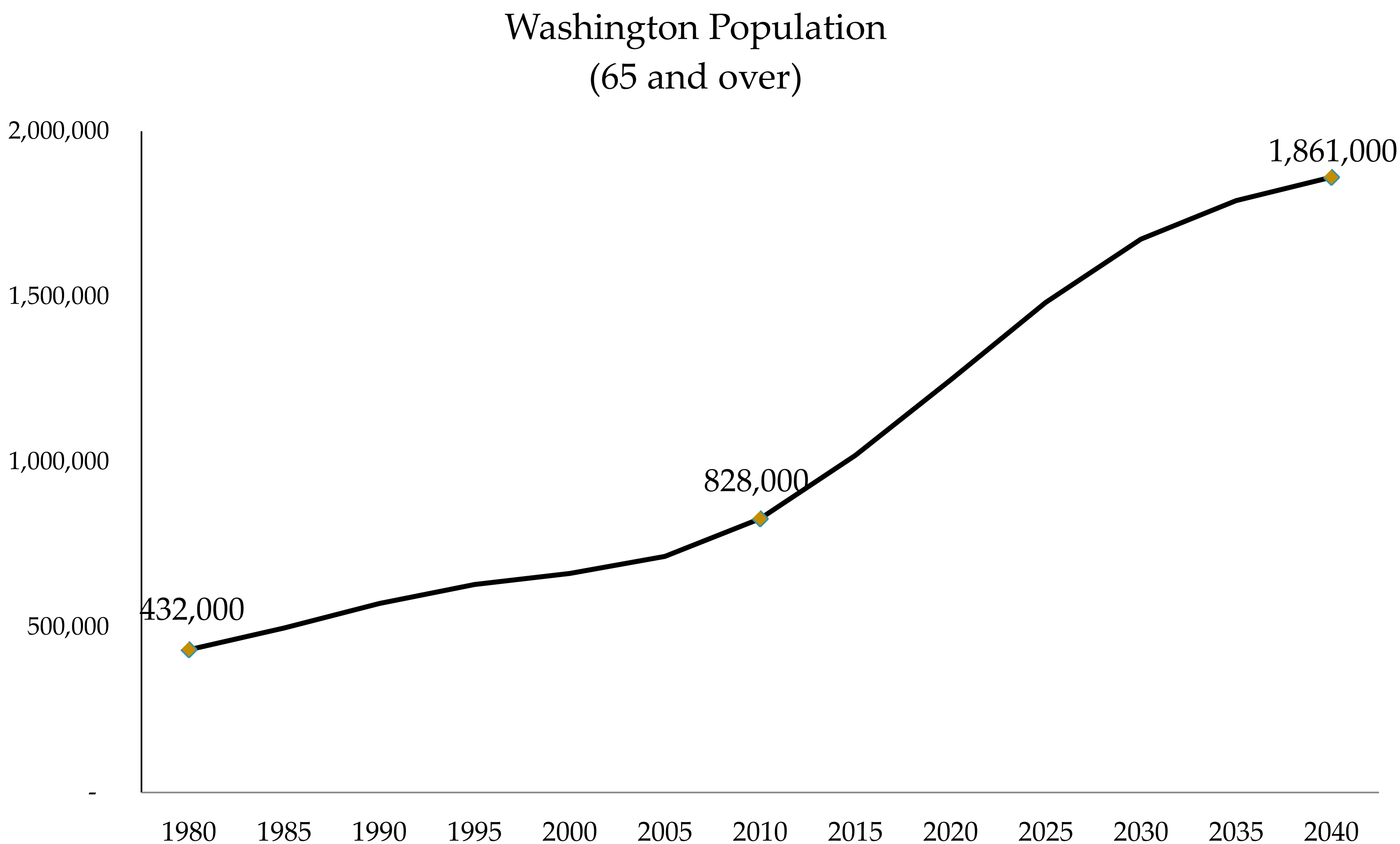
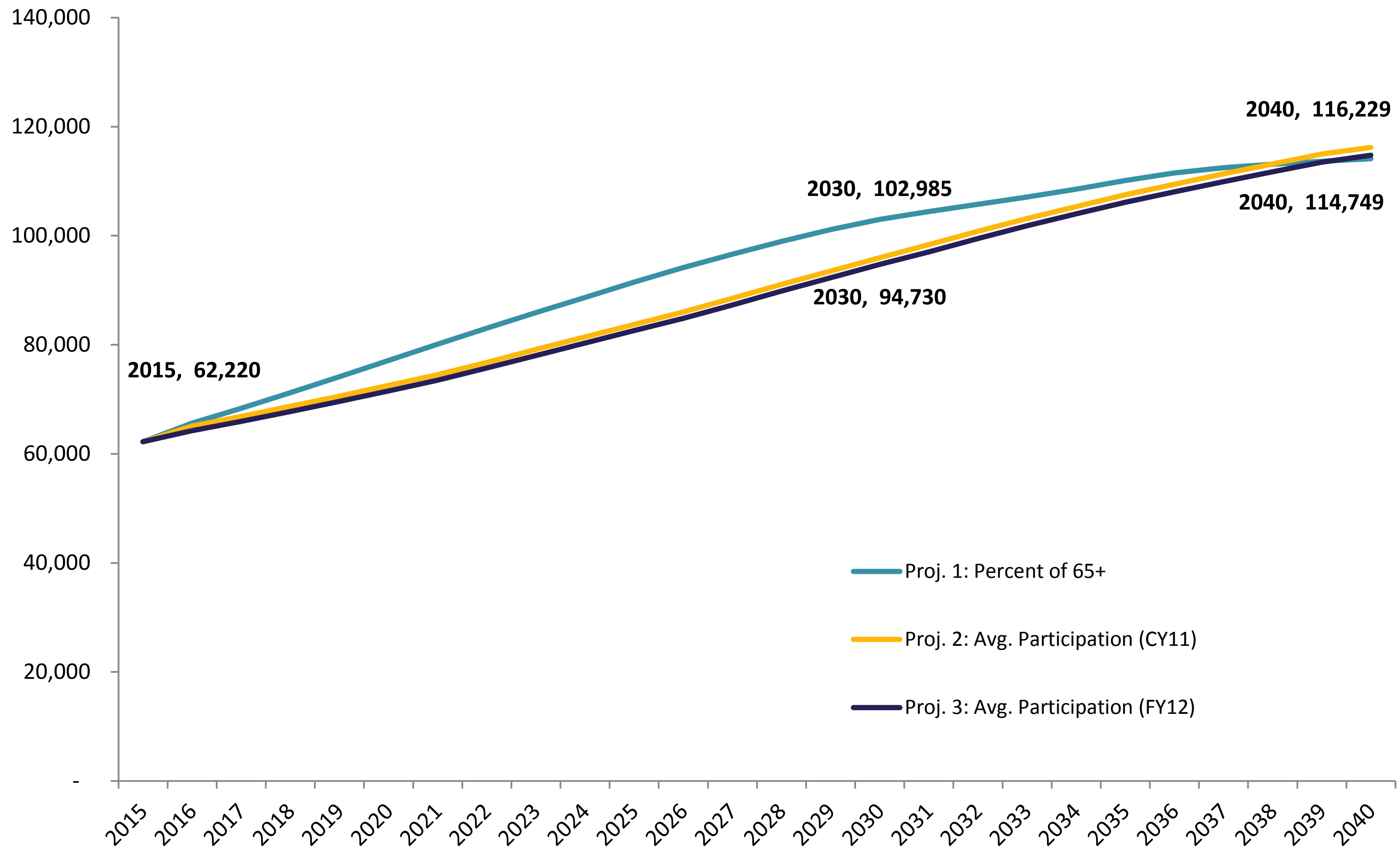


**Office of Financial Management November 2012 Population Forecast*

Is the demand for LTC services likely to increase?

*…projecting the LTC caseload through 2040**

Joint Legislative Executive Committee on Planning for Aging & Disability Issues

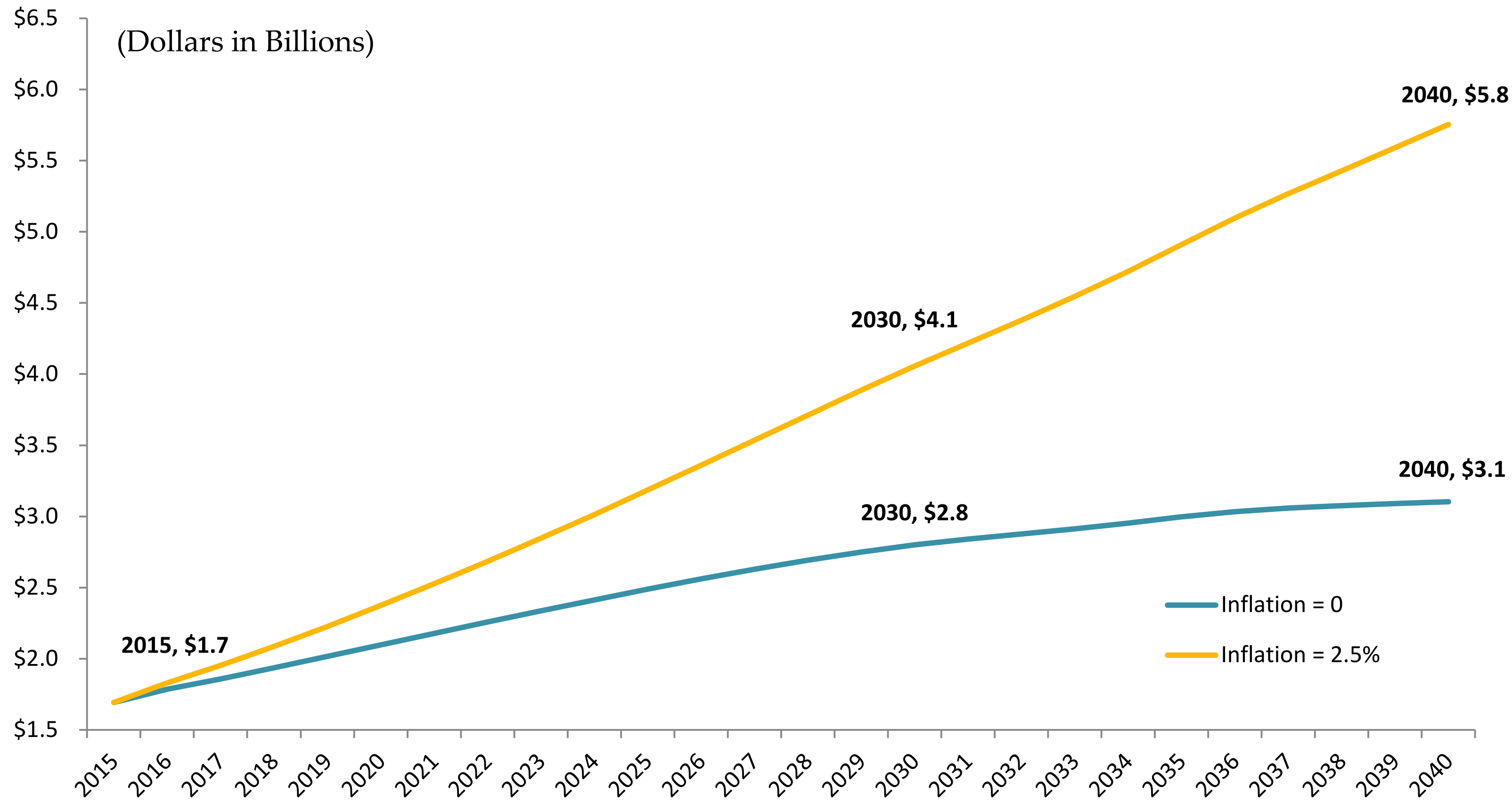


**this projection is for illustration purposed only; this is not an official forecast from the Caseload Forecast Council.*

Is the budget for LTC services likely to increase?

*…projecting the cost of LTC services through 2040**

Joint Legislative Executive Committee on Planning for Aging & Disability Issues



**this projection is for illustration purposed only; this is not an official forecast from the Department of Social & Health Services.*