Contact: Mark Primoff
(845) 758-7749
primoff@bard.edu

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AGING BABY BOOM GENERATION HIGHLIGHTS NEED FOR LONG-TERM CARE REFORM, NEW LEVY INSTITUTE STUDY SAYS

ANNANDALE-ON-HUDSON, N.Y.—With the large baby boom generation of Americans approaching retirement age, the national debate on how to meet the challenges of financing Social Security and Medicare has intensified. Far less energy, however, has been devoted to the next stage in the potential crisis: when the baby boomers move from retirement age into their senior years and their health care needs increase dramatically. In a new study from The Levy Economics Institute of Bard College, Senior Scholar Walter M. Cadette argues that—with the population of over-85-year-olds expected to double over the next 30 years—the nation will face a financial crisis unless it engages in serious planning to create a more equitable and efficient way to pay for long-term care.

In his policy note, *Caring for a Large Geriatric Generation: the Coming Crisis in U.S. Health Care*, Cadette maintains that no mechanism now exists for the financing of long-term care, except Medicaid, which is meant to pay for the acute care of the most indigent families, not the long-term care required by the majority of frail elderly. One of the consequences of the current situation, in which two out of three nursing home patients receive Medicaid, is that almost a quarter of the Medicaid budget is diverted from the acute-care needs of the indigent population.

Reliance on Medicaid creates two tiers of care, Cadette maintains. Many nursing homes are unwilling to accept patients with Medicaid because it pays less than private payers. In nursing homes that do accept Medicaid patients, the level of care often falls short because of low reimbursement rates. Furthermore, the elderly are encouraged to surrender their assets to their children in order to qualify for Medicaid. "Medicaid in effect has become a

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nearly universal form of long-term care insurance, albeit with strict asset and income to pay limits," says Cadette, stressing that long-term care is too costly out of pocket and the development of a private insurance system is hampered by the existence and accessibility of Medicaid. "Why incur years of premiums for private insurance when, with a bit of planning, the government will be the insurer?"

To address the current and coming need for a financing mechanism for long-term care and shift away from relying on Medicaid, Cadette suggests that Medicare be expanded so that, in addition to its current role of paying for some short-term services, it can also pay for the early use of long-term care. He recommends that longer stays in a nursing home be covered by private insurance, subsidized by tax credits that are scaled to income, so as to make premiums more affordable. Cadette stresses, however, that any system of government tax credits for long-term care will likely languish until the issue of the uninsured working poor is addressed.

Furthermore, according to Cadette, Congress should tighten Medicaid eligibility by lengthening the amount of time applicants must wait for coverage after having transferred assets to their heirs. "As long as the nation is unwilling to mandate private coverage for long-term care and subsidize it, or unwilling to institute social insurance, any effort to shift to an insurance model will be hamstrung by the ready availability of public aid," says Cadette. "The object is not to deny needed support to the disabled elderly, but to make it more costly for people to rely on Medicaid in the first instance."

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Policy Note 2003/3, *Caring for a Large Geriatric Generation: the Coming Crisis in U.S. Health Care*

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