FORBES > MONEY > PERSONAL FINANCE

Look To The States, Not Congress, For Long-Term Care Financing Reform

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While there is no chance the federal government will enact long-term care financing reform any time soon, several states are busy developing public insurance programs of their own. These initiatives could be a critical step as the nation wrestles with how to pay for personal care for older adults and others with disabilities or chronic disease.

Washington State is refining its first-in-the-nation public program and plans to begin collecting premiums in July and paying benefits in 2026. California is considering four options for its own public insurance program. Minnesota is exploring both public and private market solutions.

Currently, states provide long-term care benefits to the very poor through Medicaid. But the program has many problems. It limits what recipients can do with the assistance, still favors care in a nursing facility rather than at home, and often requires beneficiaries to impoverish themselves. And it puts an enormous burden on state finances.

Fully funded public long-term care insurance can be an attractive alternative. The Long-term Care Financing Collaborative, a group I helped create, recommended a public catastrophic insurance program. It would require older adults to pay for their care for the first few years but provide a lifetime benefit after that. People could fund their initial costs with savings, home equity, or private insurance.

While that idea was turned into legislation by then-Rep. Tom Suozzi (D-NY), so far it has gone nowhere. With Congress in gridlock, here's a look at what three states are doing:

Washington State. In 2019, the legislature adopted a plan to pay $36,500 in long-term care benefits, adjusted for inflation. The program will be funded by a payroll tax of about 0.6 percent, or roughly $350 annually for a middle-income worker. Washington first planned to start collecting the tax last year but the program ran into design problems, consumer resistance, and legal challenges.

The legislature addressed some problems by allowing a partial benefit for those nearing retirement and allowing those who work in Washington but live out of state to opt out of the program. A state commission has recommended other revisions that likely will be considered by the legislature later this year, including how to simplify contribution rules and what to do about people who work in Washington and pay into the program but then move to another state.

About 475,000 residents purchased private insurance in 2021 to avoid having to participate in the public program—and pay the tax. Many of those policies were low-cost but provide limited benefits and state officials expect many will let their policies lapse. The legislature will have to decide whether to require those who stop paying premiums to participate in the public program.

California. In December, a state task force laid out five alternative public long-term care insurance designs. The panel, represented consumers, direct care workers, providers, and state officials, aims to make a final recommendation by the end of the year. Possible benefit designs include:

1. $36,000 over two years for supportive services only. All adults over age 18 would be eligible.

2. $110,400 over two years for supportive services as well as care at home or in a residential facility, available only to those age 65 or older. Low-

income people would continue to receive Medicaid long-term care benefits and be exempt from this program.

3. $36,000 in comprehensive benefits over one year for those age 18 or older. This model would be similar in design to the Washington State version.

4. $81,000 in comprehensive benefits over 18 months for adults over age 18.. Unlike the second option, it also would include nursing home care.

5. $144,000 over two years. Coverage and benefits would be the same as in option 4.

Each proposal would be funded with a tax increase. The plans would reimburse covered residents for qualified expenses or offer an option for a 50 percent cash benefit.

The task force still needs to compare relative costs for each proposal, settle on a funding mechanism, and fill in scores of other details.

Minnesota. As an initial step, instead of creating a public insurance program funded by tax revenues, it is allowing private insurers to offer a product that would convert term life insurance into long-term care coverage. It would work like this: A working-age person would buy a basic term life policy that would pay, say, a $200,000 death benefit. Then, at age 65, the policy would convert to a long-term care benefit. Premiums would be only modestly higher than for a plain-vanilla life policy, and would remain the same after the policy converts to long-term care coverage.

The state currently is waiting for carriers to submit requests to sell the product. At the same time, it has begun to study more ambitious reforms. They include a public catastrophic program, a modest home and community-based benefit for middle-income residents, and a limited, capped benefit through Medicare (unlike most states, Minnesota can offer benefits through the federal Medicare program).

The state also is exploring ways to make private insurance more affordable.

The next few years may see many important long-term care financing initiatives. But they'll all come from the states, not the gridlocked federal government.

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