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RETIRING

States Try Easing the Burden of Long-Term Care's High Cost

Seeing their own financial benefits, too, Washington and California are among the states creating programs to help older residents.

By Mark Miller

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It's a retirement concern few of us want to face: At some point, four out of five older Americans will need help with daily needs like bathing, dressing, using the toilet or preparing meals.

Paying for such long-term care presents retirees with difficult choices. Medicare coverage is very limited. Private long-term care insurance policies are complicated and expensive. Medicaid, which insures low-income people, pays for long-term care only when a patient's assets have been almost completely spent. And many will rely on family members for help.

In Washington, D.C., policymakers and lawmakers have long agreed on the need for a government-sponsored solution — but not how to pay for it, said Howard Gleckman, senior fellow at the Urban Institute and author of "Caring for Our Parents: Inspiring Stories of Families Seeking New Solutions to America's Most Urgent Health Crisis."

"It's an obvious, pressing problem, and there's a great deal of interest among politicians in something like a public program, until you start talking to them about paying to make it work," Mr. Gleckman said. "You're going to have to raise the payroll tax. You can call it a contribution or whatever you want, but politicians look at it and they see a tax increase — and they say forget about it."

Now, a handful of states are acting on their own. In July, Washington State will start the WA Cares Fund, a public long-term care insurance program. California is considering a similar plan. Minnesota and several other states are studying options.

State-sponsored long-term care insurance programs raise some thorny questions, including rules for mandatory participation, how to make benefits portable when people move and how to coordinate the public plans with supplemental commercial policies.

But states that are moving forward see their programs as essential to addressing the needs of aging populations and a way to rein in swelling Medicaid spending on long-term care.

"More and more, it's something that is just overwhelming state budgets," Mr. Gleckman said.

Many Americans will need help

Most people will require some assistance with daily living needs, but the intensity and duration are impossible to predict.

Four out of five 65-year-olds will need some amount of long-term care during their remaining years, according to a study by the Center for Retirement Research at Boston College.

The researchers found that one-fifth of retirees will need no support, but about one-quarter will have severe, and expensive, care needs.

"The data does clarify how large the risk is," said Anqi Chen, research economist and assistant director of savings research at the center. "Some people may be ignoring the fact that they may need care later in life, and that it will require resources either from family or tapping savings."

Many Americans appear to be in a state of denial about long-term care. A survey by The Associated Press-NORC Center for Public Affairs Research found that 49 percent of Americans ages 40 and older expect Medicare to pay for their long-term care. In reality, the program covers only 100 days in a skilled nursing facility after a hospital stay. The survey also found that 69 percent of respondents had done little or no planning for long-term care needs — and just 16 percent were confident that they would have the money to pay for that help.

A major long-term care need can be financially catastrophic. In 2021, the median annual national cost of a private room in a nursing home was $108,405, according to the most recent figures from Genworth, a large long-term care insurance underwriter that publishes an annual survey on the cost of care.

Not all long-term care is provided in nursing facilities. A great deal of it is provided at home, which can bring expenses down significantly. Costs also vary greatly by location. And much of the labor is provided by unpaid family members and friends. AARP estimates that there were 38 million family caregivers in the United States in 2021, providing an estimated $600 billion in uncompensated care.

"For families that don't have insurance, the question is whether they have the financial resources to purchase care, or are there family caregivers available," Ms. Chen said. "And, is that a reasonable expectation to place on family members?"

Insurance might seem like a sensible way to protect against these unknown risks. But the private long-term care insurance business has floundered over the past decade.

The idea of a public-private solution is not new. A decade ago, Mr. Gleckman co-founded the Long-Term Care Financing Collaborative, which brought together policy experts with a wide array of political leanings. The group agreed on a framework that would combine a national universal government program with initiatives aimed at revitalizing the market for private policies.

Washington State's approach

With no action at the federal level, Washington State is moving forward with its own program. Over time, nearly all residents will contribute premiums via a mandatory payroll tax, and the benefit is universal.

In July, most workers in the state will start paying a 0.58 percent payroll tax on their wages to fund the program. Starting in 2026, participating residents will be able to claim a benefit if they have a demonstrated need for assistance with three or more activities of daily living. The maximum lifetime benefit of $36,500 will be adjusted annually for inflation; it is geared to cover about one year of care at home. (Ten years of contributions are required to qualify to receive the benefit, but near-retirees will be able to receive a partial benefit starting in 2026 geared to the number of years that they have contributed.)

A key aim of the program is to provide relief for middle-class families that are forced to spend down their life savings to receive long-term care through Medicaid, according to Ben Veghte, director of the WA Cares Fund at the Washington State Department of Social and Health Services.

"It gives families some breathing room to address their loved one's care needs," Mr. Veghte said.

The program is expected to reduce the state's Medicaid spending, which Washington expects to account for 8.9 percent of its total budget in the 2023-25 period. Absent WA Cares, that figure would jump to 10.9 percent by the end of this decade and 17.6 percent by 2045.

Washington has considered some complicated questions, including who can be exempt from participating. The legislation that state lawmakers approved in 2019 created an exemption for residents who had private coverage. The state later added a deadline on applying for that exemption — prompting more than 480,000 people to rush to buy the coverage, hoping to avoid the tax. They overwhelmed the insurance companies still selling long-term care policies in the state.

Those applications had to be submitted by the end of 2022. But there is no requirement that buyers maintain their coverage or prove that they still have it.

"We've been concerned that people would just buy coverage and then drop it, which really would be counterproductive," said John Mangan, vice president for state relations at the American Council of Life Insurers. "If people drop their private coverage and are not subject to the public plan, they're not covered at all — and that means they could wind up on Medicaid, which is not the goal."

Currently, out-of-state workers who commute to work in Washington can apply for exemptions from the program; so can spouses of military personnel. (All federal employees, including military personnel, are also exempt.) People who have temporary nonimmigrant work visas, such as seasonal farmworkers, can apply for exemptions. Some disabled veterans who can get care through the Department of Veterans Affairs are exempt.

Portability of benefits poses another challenge. The program's financial model assumes participation only by state residents; a commission has recommended several options for allowing people who have become vested in the program to receive a benefit if they move.

Questions also remain about some issues, including how supplemental private policies will coordinate with the public program.

"The journey has been bumpy at times, but businesses do want to ensure that people can stay in the work force or get back into the work force, particularly women, who are often the caregivers," said Rachel Smith, president and chief executive of the Seattle Metropolitan Chamber of Commerce.

California and Minnesota take steps

Lawmakers in several other states have introduced bills to either study or enact public long-term care insurance programs. Minnesota is weighing several options, including two that aim to make private insurance more affordable.

But, Washington aside, the most significant plan being developed is California's. The state is studying the financial feasibility of several options for a public insurance program, with possible legislative action expected in 2024.

"If California moves ahead, it will be exciting because it's a huge state," Mr. Veghte said. "That could really break the dam for the rest of the country."

Like Washington, California would fund its program through a payroll tax, but the state is considering a "progressive" tax system that would feature a contribution cap and a waiver for low-income residents. Another difference is that the tax might be split between employees and employers.

California is weighing a range of benefit designs, some of which would be considerably larger than Washington's. For example, one option would provide a maximum benefit of $110,400 per year, for up to two years, covering home-based services and residential facilities.

"The reality for us is that by the start of the next decade, 25 percent of our population is going to be 65 or older, and that's about 8.4 million people in California," said Michael Soller, deputy insurance commissioner for communications and press relations at the California Department of Insurance. "Leaving California seniors to fend for themselves is just not an option for us."

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