Assembly Aging and Long-Term Care Committee
Assemblymember Ash Kalra, Chair

Informational Hearing on
Financing Long-Term Care Services and Supports

Thursday, September 21, 2017
2:00 p.m.
Santa Clara Board of Supervisors Chambers
70 West Hedding Street, San Jose, CA

BACKGROUND PAPER

An Aging California
California is home to the largest number of seniors in the nation and their numbers are expanding at a pace unprecedented in history. The California Department of Finance's Demographic Research Unit estimates that California's 65+ population will have grown 43 percent between 2010 and 2020 (from 4.4 million to 6.35 million). By 2030 the 65+ population will reach nearly 9 million people. The ratio of 65+ people will grow from about one in ten people today, to one in five by 2030, approaching one in four in 2040 and beyond. This increase is largely driven by the aging of the Baby Boomer population who began turning 65 in 2011. A similar increase in the senior population nationwide will also occur during this time frame. However, differences in the demographics of California's population when compared to the population nationwide will lead to important differences between California's senior population and the senior population nationwide. For example, California's senior population is projected to shift from being majority white to majority nonwhite by 2030, while the senior population nationwide is projected to remain majority white through at least 2060.

As California's aging population expands at a rate much faster than the general population and becomes more diverse, the need for long-term services and supports (LTSS) and caregiving, both formal (paid-for) and informal (un-paid) will increase, outpacing the ability of those in need and their families to pay for such services. This projected increase in demand will also place significant fiscal pressure on the California state budget.

Of Special Concern: Women and Long Term Services and Supports (LTSS)
Whether they are receiving care or providing it, women are hardest hit by LTSS need and least likely to have the financial resources to pay for that care. Nearly 60 percent of those who receive paid care are women. Seventy percent of people receiving any assistance with activities of daily living are female. Two thirds of long-stay nursing home residents are women, as are more than 60 percent of those receiving LTSS home health. Women live longer than men, and women's greater longevity means a greater chance of living some portion of life with disability. Overall, older women are likely to need high-levels of care far longer than men (2.5 years versus 1.5 years on average) and they are twice as likely to need it for five years or more (nearly 18 percent versus less than 10 percent). Average total lifetime LTSS spending for older women is also double that for men ($182,000 versus $91,000). Low-income women are most likely to need high levels of care. At the same time, both unpaid and paid caregivers are likely to be women. Approximately 88 percent of direct care workers are female, with most serving as nursing aides, orderlies, and attendants. While men increasingly provide unpaid LTSS to family members and friends, female caregivers usually perform the most difficult work, such as bathing and dressing, as well as medical and nursing tasks. Women spend more time providing unpaid care and suffer the greatest economic loss, often reducing paid work hours or even quitting their jobs.

What is Long-Term Care?
Long Term Care (LTC) services provide individuals who, because of illness or a cognitive impairment disability, are generally unable to perform activities of daily living, such as bathing, dressing, toileting, and getting around the house. LTC services are provided in a variety of settings, such as nursing homes, assisted living facilities, and private residences. Only about 20 percent of the elderly who need LTC services live in an institutional setting. The roughly 80 percent living in the community primarily live in private homes, but a small number live in residential communities catering to the needs of elderly people. For those living at home, most receive assistance from unpaid family members and friends (referred to as informal care) while some pay for assistance (referred to as formal care) from home health aides. Elderly people with severe functional and cognitive limitations who require around-the clock assistance often live in institutional settings. According to data from the Medicare Current Beneficiary Survey, the elderly nursing home population has declined over the past 10 years as more elderly people are living in residential care facilities, community-based housing with supportive services, and in their homes.

What is the Cost of Long-Term Care?
Seventy percent of the U.S. population is predicted to need some form of long-term care services during their lifetimes, and this kind of care is expensive. According to a report by Genworth Financial, individuals in California can expect to pay:

- About $112,000 per year for a private room in a nursing home;
- About $91,000 per year for a semi-private room in a nursing home;
- About $48,000 per year for care in an assisted living (non-health) facility;
- About $20,000 per year for adult day health care;
- About $55,000 per year for a homemaker health aide; and,
- About $53,000 per year for homemaker services.

Financing Long Term Care: Who Pays and How
Payers of Long-Term Care Services and Supports (LTSS) include the state and federal governments, private insurers, and individuals who pay out-of-pocket for their own LTSS. Medicaid is the dominant source of payment for long-term care (62 percent of LTC expenditures nationally) borne roughly 50/50 on state and federal tax-supported resources, followed by out-of-pocket payments by individuals and families (22 percent of LTC expenditures nationally). Other private payers, including LTC insurance, play a minor role (12 percent of LTC expenditures nationally). In addition to paid LTSS, a large amount of LTSS is provided through informal, unpaid care.

Medicare Covers Limited LTSS: Medicare is the federal health insurance program for qualifying persons over age 65 and certain people with disabilities, and is overseen by the Federal Centers for Medicare and Medicaid Services (CMS). As a contrast to Medi-Cal (discussed below), individuals are eligible for Medicare regardless of income. Medicare only pays for a limited amount of LTSS. For example, Medicare covers up to 100 days of long-term care in a Skilled Nursing Facility (SNF) for individuals receiving skilled care, such as physical therapy, following a recent hospital stay of at least three days.

Medi-Cal Covers a Broader Range of LTSS: Medi-Cal, a joint federal-state health care program for low-income Californians, covers a much broader range of LTSS than Medicare. (Medi-Cal is California's Medicaid program.) The costs of Medi-Cal services are shared by the state and federal governments. Generally, the federal government pays for one-half of most Medi-Cal costs (although, in some circumstances the federal government pays for a larger amount of the costs), with the state paying the balance. Examples of LTSS covered by Medi-Cal include:

- ***In-Home Supportive Services (IHSS):*** The IHSS program provides personal care and domestic services to individuals to help them remain safely in their own homes.

- ***Community-Based Adult Services (CBAS):*** The CBAS program, sometimes referred to as "Adult Day Health Care," is an outpatient, facility-based service program. Program participants live in their own homes, but attend a day program with services provided by a multidisciplinary staff, including: professional nursing services; physical, occupational, and speech therapies; mental health services; therapeutic activities; social services; personal care; meals and nutritional counseling; and transportation to and from the participant's residence.

- ***Multipurpose Senior Services Program (MSSP):*** The MSSP benefit provides intensive case management and home visits for Medi-Cal recipients aged 65 or older who meet the eligibility criteria for a SNF but live outside of institutional settings.

- ***Skilled Nursing Facilities (SNFs):*** SNFs provide nursing, rehabilitative, and medical care to facility residents. Generally, SNF residents receive their medical care and social services at the SNF.

Informal, Unpaid Care is Also an Important Part of LTSS
In addition to paid LTSS, a large amount of LTSS is provided through informal, unpaid care. This type of care is most often provided by spouses, adult children, or other relatives and may be

in addition to paid LTSS. According to the Family Caregiver Alliance and AARP, the value of the services family caregivers provide for "free," when caring, was estimated to be $450 billion in 2009. The estimated value of unpaid care in California in 2010 was about $47 billion, accounting for over 3.8 billion hours of care at $12.17, the average caregiver wage in 2009. On the personal side, long term caregiving has significant financial consequences for caregivers, particularly for women. Informal caregivers personally lose about $659,139 over a lifetime: $25,494 in Social Security benefits; $67,202 in pension benefits; and $566,443 in forgone wages. Caregivers face the loss of income of the care recipient, loss of their own income if they reduce their work hours or leave their jobs, loss of employer-based medical benefits, shrinking of savings to pay caregiving costs, and a threat to their retirement income due to fewer contributions to pensions and other retirement vehicles.

Long-Term Care Insurance: Is it Working?

Long-term care insurance may be purchased from companies through insurance agents, or a variety of groups or employers. Some private employers sponsor LTC insurance, and public employers such as the California Public Employees' Retirement System (CALPERS) and the Federal Long Term Care Insurance Program (FLTCIP), sponsor their own LTC programs.

Long-term care insurance (LTCI) covers the costs of some or all long-term care services when insureds are unable to take care of themselves. Coverage is triggered when an insured develops a "chronic illness" typically defined as an inability to perform a set number of "activities of daily living" such as feeding, dressing, and bathing alone, or a specified cognitive impairment. A policy may cover facility care or home care or both. As of 2015, approximately 599,000 policies were in force in California, up from about 497,000 five years ago.

The long-term care insurance marketplace is problematic for both insurers and consumers. In the past five years 10 of the top 20 LTC insurers have stopped selling new LTC policies. Insurers have struggled with setting premiums adequate to cover their costs in the absence of sufficient claims data. LTC insurance is a relatively new product that requires years of paying premiums before claims are made. Only in recent years have the insurers begun to receive claims for many of the policies sold early on, and those claims have been much higher than the insurers anticipated. In addition to misjudging the cost of claims, insurers have struggled with anticipating policy lapse rates, LTC inflation, and life span increases. All of those factors, and others, have led to LTC insurance being much more expensive than previously expected. The early mistakes in pricing LTC policies has led to rounds of major premium increases which adds marketing challenges to a product that is already, according to insurance agents, difficult to sell.

The California Partnership Program

The California Long Term Care Partnership (Partnership) was created to provide LTCI options for middle class consumers.

California supports this innovative strategy to help middle income households who need LTC services, and who will most likely going spend down their assets, in order to rely on Medi-Cal to pay for those services.

Through the Partnership, individuals can purchase long-term care insurance that provides certain benefits with respect to the state's Medi-Cal program. Insurance policies are issued by participating private insurance companies, not the state.

These companies have agreed to offer high quality policies that must meet stringent requirements set by the Partnership and the State of California. These special policies are commonly called "Partnership policies," and do not discriminate based upon the gender of the insured as many private market policies do.

In California, the program is jointly administered by the California Department of Insurance (CDI) and the Department of Health Care Services (DHCS). CDI reviews and approves policies in accordance with the Insurance Code and DHCS establishes minimum standards and certifies that the policies meet program requirements pursuant to the Welfare and Institutions Code.

Partnership policies provide two kinds of protection for policy holders that subsequently require Medi-Cal coverage for long-term care services. First, Partnership beneficiaries are allowed to withhold assets from Medi-Cal's asset tests equal to the benefits paid from their policy. (For example, if a Partnership policy holder has a policy that pays out $100,000 in benefits and is then exhausted, that individual could qualify for Medi-Cal even if he or she had up to $102,000 in assets.) Secondly, the amount of asset recovery sought by the state upon a Medi-Cal beneficiary's death is reduced by the amount of benefits paid from their policy. (For example, if a beneficiary incurred Medi-Cal expenses over $200,000, the beneficiary has a home worth $200,000, and his or her Partnership policy paid out $100,000 in benefits, the state would only seek to recover $100,000 from his or her estate.)

Partnership policy sales have declined nationally, but most significantly in California. In 2004, 13,369 consumers applied for Partnership policies (8,425 were granted), but only 858 applied in 2014 (611 were granted).

In an effort to correct problems with the Partnership program, Senator Liu authored SB 1384, Chapter 487, Statutes of 2016 which requires the California Partnership for Long-Term Care to allow insurers to offer long-term care policies at a lower-priced option; permits participating insurers to offer home care coverage only policies; and, creates a task force to provide advice and assistance in implementing reforms to the California Partnership for Long-Term Care.

LTCI Alternatives

Insurance as a tool has many uses and LTCI products are not the only insurance-based approach to addressing the needs of the chronically ill. Some life and disability insurer offers products timed to be helpful during a chronic illness, but are not specifically designed to pay for long-term care services. For example, some life insurance policies offer accelerated benefits triggered by a chronic illness that pay insureds all or a portion of the death benefit of a life insurance policy when they develop a chronic illness.