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RESEARCH SUMMARY

IMPROVING THE SYSTEM OF FINANCING LONG-TERM SERVICES AND SUPPORTS FOR OLDER AMERICANS

Aging populations threaten to put significant pressure on the institutions that fund care for older Americans in the United States. As Medicaid experiences the arrival of large waves of retirees, appropriate actions must be taken to ensure that only those who are genuinely in need receive financial assistance for long-term services and supports (LTSS). Weak rules and poor efforts by states to verify assets and collect under estate recovery programs are adding financial stress to the Medicaid program and crowding out private means of financing LTSS, such as long-term care insurance.

In "Improving the System of Financing Long-Term Services and Supports for Older Americans," Mercatus Senior Research Fellow Mark J. Warshawsky and R Street Institute Associate Fellow Ross A. Marchand describe the problems with the current system of financing LTSS, review recommendations from the 2013 Commission on Long-Term Care, and examine the weak efforts of states in designing and enforcing current eligibility rules. The study concludes that simple and targeted recommendations to reform Medicaid can lead to an overall improvement in the system of financing LTSS.

SUMMARY OF CURRENT LTSS FINANCING PRACTICES

The current system for financing LTSS in the United States faces significant challenges from changing demographics.

- *The burden of an aging population*. The need for care will grow rapidly with the aging of the population, creating an unsustainable burden for the federal and state governments, who together currently finance 62 percent of paid LTSS.
- *The burden of higher-income recipients*. Five percent of retirees in the top two-fifths of the income distribution are receiving Medicaid LTSS support, with average payments that are more than 50 percent larger than payments for lower-income recipients.

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Despite its reputation, Medicaid for LTSS does not benefit only the poor.

- *Significant variations in states' asset-counting rules*. Owing to heterogeneous state rules, nearly a third of retirement assets are not being counted against Medicaid eligibility requirements. Lax requirements in one state unfairly burdens other states.

- *High homeownership rates among older Americans*. In 2012, more than 80 percent of retired households age 65 through 67 owned their own homes, which are excluded from countable assets in determining Medicaid eligibility. But the extensive development and use of various financial products, such as home equity lines of credit and reverse mortgages, make the home a liquid asset from which retirees can draw for income and resources.

- *Variations in asset verification among states*. According to a 2011 survey, only 37 states asked Medicaid applicants for information about their primary residence (with some of the remainder looking at county property records). Less than half the states asked for information going back five years. Some states did not verify reported income from government agencies such as the IRS and unemployment insurance programs. Few states contacted financial institutions, even when listed on an application.

Estate recovery programs, in which states reclaim the value of Medicaid expenditures on LTSS after the death of the unmarried individual or surviving spouse, have significant room to improve.

- *Manipulation of home equity to avoid asset recovery*. States' adoption of estate recovery programs induces older Americans to decrease their home equity, which leads to a decrease in the proportion of the total wealth portfolio that is composed of primary housing assets.

- *Ability to recover significantly more*. Using the state with the highest recovery rate in any year as the standard, the study demonstrates that over the 2002–2011 period, aggregate recovery could have been $24 billion instead of the $4.4 billion that was actually recovered.

POLICY RECOMMENDATIONS

The federal government could implement and enforce the following reforms by reducing Medicaid matching rates for noncompliant states.

- *Tightening asset-related eligibility rules*. The federal government could ensure that Medicaid resources are better targeted to individuals with insufficient financial means by requiring that the retirement assets of applicants be subject to asset counting, requiring electronic asset verification, and requiring states to ask applicants to produce financial information on all available resources for the five-year period preceding application.

- *Narrowing the "primary residence" exclusion*. Currently, states are not allowed to set the equity interest exclusion below $545,000, roughly two-and-a-half times the median value of a US home. Lowering this amount would diminish the incentive for applicants to manipulate their home equity and ensure that enrollees are only those with legitimate need.

- *Forcing states to get serious about estate recovery*. The federal government could significantly improve recovery rates by enforcing the existing requirement on states to automatically impose liens on the housing properties of Medicaid beneficiaries.