

Who pays for long-term care?

Almost 10 million Americans need long-term care.¹ Long-term care refers to the assistance and services provided to people who are limited in their ability or are unable to perform basic activities, such as bathing or dressing, because of chronic illness or disabling conditions. Most people with long-term care needs rely heavily on unpaid help from family and friends. Still, spending for long-term care services is substantial.

In 2001, national spending on long-term care totaled \$173 billion, or about 12 percent of total health care (including medical and long-term care) expenditures.² Almost three-quarters of long-term care expenditures are for institutional care.³

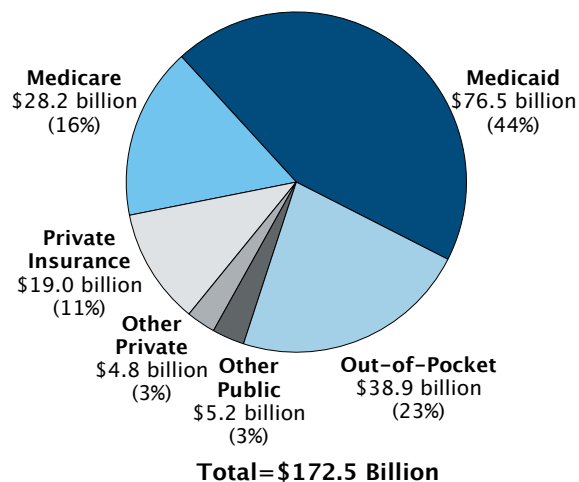
For individuals with extensive long-term care needs, long-term care services can be costly. In 2002, the average annual cost of nursing home care was \$52,000 for a semi-private room and \$61,000 for a private room.⁴ The average hourly rate for home care provided by a home health aide was \$18.⁵ At this rate, four hours of home care daily would total about \$26,000 annually.

Medicaid is the nation's largest source of financing for long-term care, followed by out-of-pocket payments by the people receiving care and their families. Medicare and private health insurance provide limited coverage for nursing home and home health care. Few people have private long-term care insurance, although the number is growing.

Medicaid

In 2001, Medicaid accounted for 44 percent of national long-term care spending (see Figure 1) and 46 percent of national spending for institutional care. The Medicaid program pays for long-term care services for certain individuals who have limited resources. Medicaid is jointly funded by the federal and state governments but is administered by the states.

Figure 1
National Spending for Long-Term Care, by Payer (2001)



SOURCE: Health Policy Institute, Georgetown University, based on data from: Centers for Medicare & Medicaid Services, Office of the Actuary, *National Health Expenditures Tables*, 2003, available at <http://cms.hhs.gov/statistics/nhe/historical/>, accessed 22 April, 2003.; and B. Burwell, S. Eiken, and K. Sredl, "Medicaid long-term care expenditures in FY2001" (Cambridge, MA: The MEDSTAT Group, 10 May 2002, memorandum).

State Medicaid programs are required to provide nursing home care. In federal fiscal year 2001, institutional care accounted for 71 percent of total Medicaid long-term care spending (see Figure 2).

States are also required to provide medically necessary home health care, which may include nursing services, medical supplies, and some therapies. States may opt to additionally include personal care in their Medicaid program. They can also provide home and community-based services under a waiver of federal requirements. Waivers give states the flexibility to provide specific services to a specific and limited population, thereby controlling their expenditures for noninstitutional care.

In fiscal year 2001, home and community-based waiver programs accounted for almost two-thirds of Medicaid spending for noninstitutional care. The proportion of Medicaid spending for waiver programs has increased substantially over the past decade, up from 5 percent in fiscal year 1991 to 19 percent in fiscal year 2001.

Out-of-Pocket Payments and Family Care

Out-of-pocket payments by people receiving long-term care and their families financed 23 percent, or \$38.9 billion, of long-term care costs in 2001 (see Figure 1). The role of families of individuals with long-term care needs is much greater, however. Family members often provide many hours of informal or unpaid care to their loved one. Less than 10 percent of community-dwelling adults receiving long-term care depend solely on paid help.⁶ The indirect costs associated with family caregiving, including time away from paid work and other activities, are also substantial.⁷

Medicare

The federal Medicare program, which provides health insurance to people age 65 or older and some disabled people under age 65, financed 16 percent of national long-term care spending in 2001. Although Medicare is not designed to pay for long-term care services, it provides limited coverage of nursing home and home health care to Medicare enrollees who meet certain requirements. Medicare pays for the first 20 days, and in part for an additional 80 days, of care in a skilled nursing facility following a hospital stay of at least three days. Medicare also pays for home health care for individuals who are homebound and require part-time skilled nursing or therapy services.

Private Insurance

In 2001, private insurance, including both health and long-term care insurance, accounted for 11 percent, or \$19.0 billion, of national long-term care spending. Like Medicare, private health insurance usually covers a limited amount of nursing home and home health care. Although private long-term care insurance is specifically designed to cover long-term care, it is a relatively new product and covers few people.

The private long-term care insurance market is growing, however. Between 1991 and 2001, the total number of policies ever sold grew from 2.4 million to 8.3 million.⁸ The Health Insurance Association of America reports that as of December 31, 2001, roughly 7 in 10 policies ever sold were still in force. This suggests that roughly 5.8 million people were insured by private long-term care insurance policies. In 2001, insurers paid about \$840 million in claims.⁹

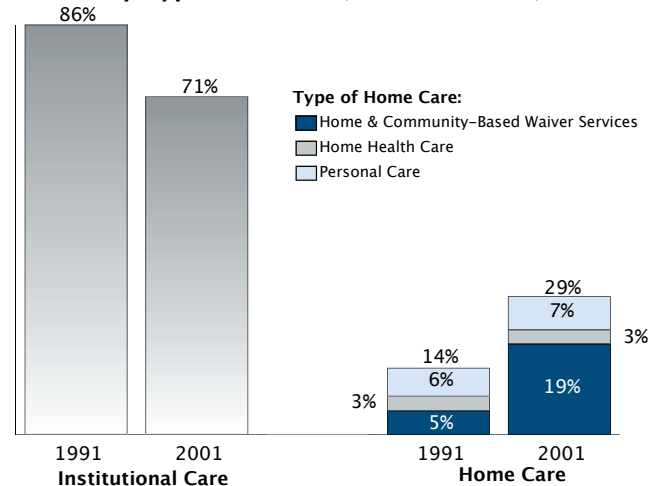
Other Payers

Other private and public sources accounted for 6 percent of total long-term care spending in 2001. Several federal programs, including the Older Americans Act and the Social Services Block Grant, provide home and community-based services for older, disabled people. The Department of Veterans Affairs also provides a range of services to veterans, including nursing home and home health care, and support to their caregivers.¹⁰ Programs that are funded solely by state or local revenues generally provide home and community-based care.¹¹

Policy Issues

Because insurance coverage for long-term care is

Figure 2
Distribution of Medicaid's Long-Term Care Spending,
by Type of Service (1991 and 2001)



Note: Years are federal fiscal years.
SOURCE: Health Policy Institute, Georgetown University, based on data from B. Burwell, S. Eiken, and K. Sredl, "Medicaid long-term care expenditures in FY2001" (Cambridge, MA: The MEDSTAT Group, 10 May 2002, memorandum).

limited, most people face the risk of impoverishment in the event that they need extensive care. Medicaid is the nation's safety net for individuals with long-term care needs. Given the tremendous variation in state Medicaid programs and their vulnerability to changing state budgets, the security of that safety net is uncertain. Finally, despite most people's strong preference for home and community-based care, institutional care continues to account for the majority of both Medicaid and total spending for long-term care.

Notes

- 1 S. Rogers and H. Komisar, *Who Needs Long-Term Care?* (Washington, DC: Georgetown University Long-Term Care Financing Project, May 2003, fact sheet).
- 2 Figure 1 and Centers for Medicare & Medicaid Services, Office of the Actuary, *National Health Expenditures Tables*, 2003, available at <http://cms.hhs.gov/statistics/nhe/historical/>, accessed 22 April 2003.
- 3 Centers for Medicare & Medicaid Services.
- 4 MetLife Mature Market Institute, *MetLife Market Survey on Nursing Home and Home Care Costs* (Westport, CT: MetLife Mature Market Institute, 2002).
- 5 Ibid.
- 6 Rogers and Komisar.
- 7 R. Toseland, G. Smith, P. McCallion, "Family Caregivers of the Frail Elderly," in *Handbook of Social Work Practice with Vulnerable and Resilient Populations*, ed. A. Gitterman (New York: Columbia University Press, 2001).
- 8 S. Coronel, *Long-Term Care Insurance in 2000-2001* (Washington, DC: Health Insurance Association of America, 2003).
- 9 Ibid.
- 10 J. Tilly, S. Goldenson, and J. Kasten, *Long-Term Care: Consumer, Providers, and Financing* (Washington, DC: The Urban Institute, 2001).
- 11 L. Summer, *State-Funded Home and Community-Based Service Programs* (Washington, DC: National Governors Association, 2001).



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About the Project

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