PENNSYLVANIA HEALTH CARE ASSOCIATION

Advancing quality. Improving lives.

Testimony of

Pennsylvania Health Care Association (PHCA)

Delivered by

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at a

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Good morning and thank you, Commissioner Miller and other key members of the executive team at the Department of Insurance, for the opportunity to come before you and testify this morning.

I am Russ McDaid, the President and CEO of the Pennsylvania Health Care Association.

PHCA is a statewide advocacy organization for Pennsylvania's elderly and disabled residents and their providers of care. Our mission is to ensure that those who need long-term care receive quality services in the most appropriate setting as they age.

PHCA represents both for-profit and nonprofit providers who offer services that range from integrated retirement communities and multi-level care campuses to freestanding nursing homes, assisted living/personal care homes, and ancillary care/home-care enterprises. Overall, PHCA represents more than 500 long-term care and senior service providers that care for almost 50,000 elderly and disabled individuals daily.

As you know all too well, Pennsylvania has a lot at stake when it comes to issues affecting older residents. We are among the nation's oldest and most rapidly aging states. Our commonwealth ranks third nationally by percentage of population age 65 or older, behind Florida and West Virginia. About 2 million of our 12 million residents are age 65 or older, today.

Much has been written about the wave of 80 million baby boomers that began turning 65 in 2011. An estimated 3.4 million of these baby boomers live in Pennsylvania --- almost 5 percent of our nation's total. This age wave is 'personal' to all of us, as many of us are either boomers ourselves, or have parents or grandparents who will soon need long-term care. By the time we get to 2050, one in four Pennsylvanians are projected to be over age 65 and potentially need long-term care.

Unless individuals, families and both the state and federal governments plan ahead, or come up with clear solutions, the baby boomer tsunami will continue to challenge public and private insurers and the long-term care insurance market.

The state's, and the nation's, long-term care system is plagued by numerous factors, including not only financial constraints, but public misconceptions.

For example, the National Commission for Quality Long-Term Care found 34 percent of Americans believe most long-term care is paid for by Medicare, 20 percent believe it is paid for by Medicaid and 22 percent believe individuals and their families pay for most long-term care. Thirteen percent said they had no idea how long-term care is financed under the current system. Many think their needs will be met by existing health insurance or Social Security.

They're all wrong: Social Security doesn't; Medicare and other government health insurance programs won't; state Medicaid programs can't, as they are already stretched too thin; and basic insurance doesn't cover long-term care services. Perhaps it is because of these misconceptions that the Urban Institute found long-term care to be a leading cause of catastrophic out-of-pocket costs for families.

The fact that people are not planning ahead should be no surprise.

As the President of PHCA, I am often asked: “Should everyone have long-term care insurance?” As you might imagine, there’s no single ‘right’ answer to that question. Generally, financial experts will advise that unless a person is poor enough to qualify for Medicaid at the onset of long-term care needs or wealthy enough to pay for their own care for an extended period of time, the person should consider long-term care insurance. Given the rising costs of long-term care, the vast majority of us fall into the second category where the costs of long-term care are likely to outstrip our ‘wealth’ at some point in our lifetime.

No one likes to think about getting older, facing chronic illness or becoming too frail to safely live on our own. But it happens, and when it does, more and more seniors and their families are finding themselves unprepared. Data show that only 35 percent of people 65 or older think they will need long-term care in the future, whereas 70 percent of those turning 65 this year will eventually require some form of long-term care. Despite these facts, few people have insurance coverage against the high cost of their long-term care.

And, as we are hearing today, even those that do plan ahead and do purchase private long-term care insurance often find themselves without protection, with coverage that either doesn’t provide the care they believed it did when the purchased the policies, has benefit limits that fall far below the actual costs of care or have premium increases that make the coverage unaffordable as they age.

That needs to change, because state governments **alone** cannot solve all of the problems of financing long-term care that exist today. Pennsylvania’s Medicaid program can and should do its part, but the current growth curve for the State’s Medicaid program is not sustainable.

Private sector insurance coverage must be part of the solution.

Clearly, individuals should carry a part of the responsibility for financing their own long-term care whenever possible, and long-term care insurance is one way to do this. However, as others today will share, as rates for long-term care insurance skyrocket and benefits fall short of expectations, consumers are far less likely to view long-term care insurance as a viable option to meet their long-term care needs. It is the classic ‘Catch-22’ issue—the private long-term care insurance market will continue to struggle until more people buy the coverage and risk/exposure improve, but that can’t happen until more consumers trust the marketplace and buy the coverage.

But there are ways for the state and federal government to assist consumers by making the purchasing of long-term care insurance a more viable option beyond keeping the rates affordable.

1. Pennsylvania could pass legislation that would take long-term care insurance in Pennsylvania, to the next level. Legislation could be crafted that would allow people to deduct the purchase of long-term care insurance “above-the-line” on their state tax forms --- that is, deduct it directly from their total income before taxes, thereby decreasing their tax bill in most cases. We believe this should also be done at the federal level, but we suggest

starting with legislation here in Pennsylvania to permit this deduction or tax credit. Providing either a deduction or a tax credit would benefit the state in the long term by reducing Medicaid costs, and many states already provide this tax relief.

2. Alternatively, Pennsylvania could pass legislation that would easily allow individuals to access their life insurance for long-term care in the form of an accelerated death benefit. In 2013, 70 percent of American households had some form of life insurance[1]; for many individuals, it may make some sense to convert at least a portion of this life insurance to pay for long-term care or to buy long-term care insurance. A few insurance companies allow this, but legislation might make this easier.
3. A similar concept would be to pass legislation that would expand the concept of reverse mortgages, allowing people to more easily use the equity in their homes to help pay for long-term care or long-term care insurance. A reverse mortgage lets you tap into your home equity, and you don't have to pay back the loan for as long as you live there. Funds from a reverse mortgage could pay for renovations to make the home safer for an elderly loved one, for home health care, to provide family caregivers with funds for out-of-pocket expenses, or to purchase long-term care insurance. Legislation could better enable this process and simultaneous build in consumer safeguards.
4. Pennsylvania and other states could also work with the federal government to explore the feasibility of granting access to the federal Long-Term Care Insurance Program. This program was established by Congress in 2000 (PL 106-265), and is available to employees of the federal government, U.S. postal service, active and retired uniformed service members, and qualified relatives. It is the largest true group Long-Term Care Insurance program in the country, and is offered and administered by the John Hancock Life and Health Insurance Company.

Finally, as many here have noted, the challenges facing both consumers and insurers in the Long-Term Care Insurance marketplace are significant, and as we evaluate potential solutions for the challenges that lie ahead, it may be time to discuss the feasibility of enhanced public/private partnerships where consumers cover the first few years of care with some combination of savings, home equity and private long-term care insurance, with a government 'backstop' of a government subsidized catastrophic coverage program of some type. This would likely only be feasible if the will exists to hold consumers accountable for accessing their own equity on the front end, and tightening the rules around divesting private assets rather than putting them towards the individual's long-term care needs.

These are just a few ideas, but the point of these suggestions is clear: Government must continue to play a prominent role, but new government programs are not the solution-- government can't afford to take on much more.

Commissioner Miller, thank you for allowing me to testify today. We appreciate your commitment to assuring the commonwealth builds and maintains the finest long-term care system in the nation. We will be pleased to answer any questions.

[1] http://www.limra.com/, 2015.