Wendell K. Kimura
Acting Director

Research (808) 587-0666
Revisor (808) 587-0670
Fax (808) 587-0681

LEGISLATIVE REFERENCE BUREAU
State of Hawaii
State Capitol
Honolulu, Hawaii 96813

No. 02-09 LRB Notes **September 9, 2002**

LONG-TERM CARE

By Peter G. Pan

Q1: What is long-term care?

A1: Long-term care ("LTC") is a set of medical and personal care and social services. It is given over a sustained period. Persons who receive it are those who have lost, or never acquired, some degree of physical or cognitive functioning, as measured by an index of functional ability.

There are two kinds of long-term care services: "medical care" and "non-medical personal care" services.

Doctors and nurses give "medical care" in institutional settings such as nursing homes and skilled nursing facilities. Doctor-authorized medical care is also provided by home health agencies. This care can include nursing and various therapies. The intent is to medically manage and maintain a person's physical health.

"Non-medical personal care" services are usually provided in more informal settings such as:

- A person's own home
- A residential care home in the community
- Adult day health or day care centers
- Congregate housing
- Senior centers, etc.

Q2: Who receives long-term care?

A2: Generally, these are persons who have lost or never had some functional capacity and who need help to perform activities of daily living (eating, bathing, dressing, toileting, etc.) (ADLs). Such persons may be ill, but need not be. Many are otherwise healthy. For example, the following all are candidates to receive LTC in terms of functional assistance:

- An otherwise healthy person with a disability
- An otherwise healthy elderly person who needs help to dress and bathe
- A person with a chronic illness like diabetes or arthritis, or a severe cognitive problem like Alzheimer's disease
- Persons who need help with catheters, medications, injections, or rehabilitation therapy who have suffered strokes, fractures, or are recovering from surgery

Q3: How will those in need of long-term care be cared for? Who pays for long-term care?

A3: The national average monthly cost of institutional nursing home care is $4,654. The figure for services delivered in an assisted living facility is between $2,000 and $2,500.

Those in need of LTC are cared for in several ways:

- About 75% of the disabled elderly live at home and rely on family members or other unpaid caregivers.
- Medicare and conventional health insurance typically cover only skilled medical care provided by nursing homes and home health care agencies for a very limited time.
- Patients pay out-of-pocket. About 70% of those who enter a nursing home deplete their savings and other assets to fund one year of care. As this occurs, and they become financially needed, they may become eligible for Medicaid.
- Medicaid, although not originally intended to pay for LTC, has become the largest payer for institutional long-term nursing home care.
- Private LTC insurance pays for various LTC costs.
- State-sponsored financing for LTC (*see A7, A8, & A9.*)

Q4: What is the nature and scope of the LTC problem in Hawaii?

A4: The nation's population is aging. Hawaii's population is aging faster than most other states. Between 1990 and 1999, the fastest growth of the aging population among the states occurred in Hawaii. Those between age 65 and 74 in Hawaii increased 13% versus only 1% nationally. Those aged 75 and older in Hawaii increased 62% versus only 24% nationally.

The elderly are more likely than younger people to have some kind of functional limitation. Thus, the more elderly people there are, the greater the need for LTC to assist with their functional limitations. This problem is expected to get worse starting in 2011 nationally and in Hawaii when the "baby boom" generation will start turning 65.

Several characteristics make the cost of LTC less affordable in Hawaii. First, the cost of living is relatively high. Second, average wages are relatively low and many have to work more than one job to survive. Although Hawaii has many extended families in which family members provide free LTC, the lost opportunity cost of not working at a paying job is costly.

Q5: What is the federal government doing?

A5: Reducing the cost of private LTC insurance has been the focus of recent federal legislation. However, the Health Insurance Association of America estimates that only about 6% of Americans purchased such insurance. Unlike other kinds of insurance, LTC insurance pays for personal care services even if medical care is not needed.

Federal initiatives, for example through the Health Insurance Portability and Accountability Act, provide tax incentives for individuals to take financial responsibility for their long term care needs.

Q6: What are state governments <u>other</u> than Hawaii doing with respect to this problem?

A6: The other states have dealt with various aspects of LTC. Some have redefined populations that can benefit from Medicaid funding. Some have emphasized less expensive community-based LTC services. Some have restructured their government agencies to consolidate or streamline LTC delivery. Many have obtained Medicaid waivers to make use of Medicaid funding for various alternative LTC services for various populations. To reduce the cost of LTC to consumers, some 22 states now offer tax credits or tax deductions for LTC insurance premiums.

To date, other states have focused primarily on tax deductions or tax credits to mitigate the cost of long-term care. However, none, except Hawaii, has addressed financing a comprehensive system of long-term care for all its residents regardless of income and whether they buy private insurance or not. That is, other states aim to reduce the cost of private LTC insurance for those who buy it. Hawaii, on the other hand, has already enacted and is taking the initial steps to implement a law to collect a tax to pay for long-term care for all its eligible residents. (*See below*)

Q7: What has the Hawaii state government done?

A7: Hawaii allows an individual state tax *deduction* for LTC insurance premiums parallel to tax deductions allowed under federal law. Additionally, however, Hawaii has already taken action leaps and bounds beyond what any other state has done. On July 2, 2002, Act 245, Session Laws of Hawaii 2002, which created the Hawaii Long-Term Care Financing Program, became law. The program is intended to provide universal and affordable LTC for all eligible Hawaii residents regardless of income. The LTC benefits are intended to be primary with respect to private LTC insurance and Medicaid benefits. Act 245 also created the Hawaii Long-Term Care Benefits Fund. The Department of Budget and Finance is to deposit money collected as LTC taxes into the fund. The fund's money is to be used only for LTC benefit payments and administration costs.

Q8: What are the long-term care benefits under Act 245 and who gets them?

A8: Act 245 only set up a framework for the LTC program. It did not actually determine benefits. However, it did set eligibility. To be eligible, a person must have a:

- Need for assistance with 2 or more ADLs for at least 90 days or affliction with Alzheimer's disease or dementia
- Written certification from a doctor or advanced practice registered nurse certifying need for one or more LTC services

Q9: When does the long-term care program under Act 245 begin operating?

A9: The program created by Act 245 is slated to begin on July 1, 2003. However, details of the program, including how to pay for it, need to be worked out before then. To do this, beginning on July 1, 2002, a temporary board of trustees appointed by the Governor is required to:

- Determine how and how much of a LTC fee or tax needs to be collected
- Determine the nature and amount of LTC benefits
- Recommend a third-party administrator
- Submit an actuarial report and actuarial opinion, which is to include:
  - An estimate of expected future income and disbursements from the long-term care fund for the next 10 fiscal years
  - A projection of tax rates needed to keep the program funded
  - The current and projected number of participants and beneficiaries, taxes, payments, assets, etc.