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LTCFA Newsletter:

A Case for the Elimination of Medicaid Trusts

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History: Back in 1965 when it was founded, Medicaid was designed as a much-needed support program for the truly poor of America. It was projected to have an annual cost of $1.3B and increase at a relatively slow, modest rate. The initial projections were well off the mark, as costs increased by 50% per year on average, and the number of covered lives dramatically exceeded expectations. The current annual tab for Medicaid spending is now over $672B with no growth slowdown in sight. What has happened since, is that the program has been effectively raided by lawyers and politicians to cover almost all Americans, even those possessing net worth's in the millions of dollars. This raid has effectively shut down the private insurance market for long-term care, severely impacted both federal and state budgets and strangled the supply of funds available to support the long-term care industry, leaving it decimated and dying.

Problem: Where does the problem lie? Is it only with the very rich? The answer is no, the problem also includes the middle class who often have assets or sheltered income that could substantially cover the inevitable costs of end-of-life care. Why should not we all be responsible for the care that we know, with little uncertainty, will someday come? Medicaid, after all, was never intended to be an entitlement program for everyone, but rather a means-tested safety net to ensure care for our truly needy fellow citizens.

Solution:The solution will need to come from both federal and state legislators with support of national organizations like AARP which must together recognize and speak to the undeniable facts that we are headed towards a national calamity without the enactment of substantive change. National health expenditures have already reached 19.7% of GDP (Gross Domestic Product). Looking at our position among other developed countries of the world we spend a significantly larger portion of GDP. Most recent world data from 2019 shows we are far above the rest. France, Germany, and Switzerland are between 11 and 12%. Canada, Australia, and the UK are between 10 and 11%. Along with elimination of self-induced poverty by trust we must also provide incentives for the purchase of long-term care insurance. The latter can be supported by tax incentives for both individuals and corporate employers.

Benefit: The benefit of action will accrue not only to federal and state budgets, but also to the struggling long-term care industry in America. Nursing homes are closing at an alarming rate. This is happening just before the aging baby boomer generation is set to accelerate need for such care as never before. Medicaid, with its payment rates lower than cost will be replaced by private insurance. This is not a complete panacea, as large and mighty insurance companies will no doubt try to control pricing, but it will be a competitive market. Facilities will have the option to contract with insurers who match their needs, or perhaps if not, refuse to do business with them. It must be better than what we live with today as perhaps 70 percent of facilities are losing money, due mainly to the inadequate payment rates by the Medicaid program.

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