The United States is headed toward a demographic meltdown on long-term care costs. Life expectancy continues to increase for the “baby boom” generation, and by 2031, all 77 million boomers will have reached retirement age. It is estimated that at least 40 percent of Americans 65 and older will require long-term care services, but only six percent of Americans today own a long-term care insurance policy. In the beginning of 2002, only 8.26 million LTC insurance (LTCI) policies had been sold. With state and federal Medicaid budgets already under severe strain, we must encourage individuals to prepare early for financing their own long-term care needs.

Long-term care refers to a wide range of health care services for people with a degenerative condition (such as Parkinson’s or stroke), a prolonged illness (cancer), a cognitive disorder (Alzheimer’s) or when one can no longer perform “activities of daily living,” such as eating, bathing or getting dressed. This is especially significant when you consider the costs of long-term care today:

- For nursing home care, the nationwide average is $181.24 a day. ($66K/yr)
- For assisted living, the nationwide average is $78.21 a day.
- For home care, the nationwide average is $18.12 a day.

Most seniors are financially ill-prepared to meet potential long-term care needs. According to the Congressional Budget Office, in 2000, only about 7% of seniors had incomes above $50,000 per year, less than the average annual cost of nursing home care.

There is an innovative proposal in Congress, however, to provide incentives for the purchase of private long-term care insurance. The Long-Term Care Insurance Act (H.R. 976), introduced in February 2005, by Representative Lee Terry (R-NE), and currently co-sponsored by 41 additional members of Congress, would allow individuals to use their Individual Retirement Accounts (IRAs), 401(k) and 403(b) plans to purchase long-term care insurance (LTCI) with pretax dollars without penalty.

Many people put off buying LTCI until it is too late or too expensive. The key is to buy coverage at younger ages when premiums are quite affordable. Allowing taxpayers to use funds from these plans to buy LTCI provides an attractive motivation for consumers to take personal responsibility for their long-term care needs.

For most taxpayers, LTC expenses are already tax deductible like any other medical expense. However, a taxpayer must itemize and health expenses must meet or exceed 7.5% of his or her adjusted gross income. This limits the deduction benefit to far too few taxpayers.

In contrast, many Americans are saving for their retirement through IRAs, 401(k) and 403(b) plans. In 2002, an estimated 43.2 million Americans had more than

2.33 trillion dollars in individual retirement accounts. And, an estimated 47.2 million Americans had more than $1.81 trillion in 401(k) plans.

The Long-Term Care Insurance Act introduced by Rep. Terry assists Americans in preserving their wealth in retirement, which is consistent with the purpose of individual retirement accounts, while protecting the government from the costs of assuming care under Medicaid.

Almost seventy-five percent of nursing home care is publicly funded: Medicaid – 58.7%, Medicare – 14.7%. Encouraging private LTCI could significantly reduce Medicaid's future institutional care expenses while giving insured people many more alternatives to nursing homes, such as home care, adult day care, foster care and assisted living. By providing individuals with the proper incentives to plan for their own long-term care financing, Congress can reduce the number of people dependent on Medicaid and allow the program to do a better job for its proper clientele: the poor.

The Long-Term Care Insurance Act is a win-win solution. It provides the right incentives for people to prepare for their future health care needs, which in turn will help preserve Medicaid for the truly needy.