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How Growing Inequality in the U.S. Makes Long-Term Care Financing Reform Harder

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How Growing Inequality in the U.S. Makes Long-Term Care Financing Reform Harder

Karl Polzer and John Cutler

For many years, there has been no shortage of proposals to meet the daunting challenge of financing long-term care (LTC) for the outsized baby boomer generation and cohorts that follow. These have never gotten very far in large part because of the divide between those who seek more of a social insurance solution versus those favoring private financing (and, in many cases, seeking to restrict Medicaid as part of that effort).

Disagreement has resulted in a policy stalemate. Yet demographics march on. The vanguard of the boomer generation is less than 10 years from beginning to drive up demand for LTC, and the country is unprepared for it.

In most cases, advocates for either view tend to share a middle to upper-middle class perspective that has not been sensitive to major shifts in the economic strata below them. Many assume there is a stable American middle class that could either be sufficiently taxed to expand government programs or incentivized to pre-finance LTC of a variety and a quality level above what's available in a typical nursing home—which is what is now universally available to Americans through Medicaid after exhausting virtually all their assets.

CHALLENGES TO CURRENT THOUGHT

Two developments now challenge this orthodoxy. The most obvious is the collapse of the market for LTC insurance (Ameriks et al. 2016), which conservatives have held out as the alternative for middle class reliance on Medicaid. More important, but until recently less understood, is growing economic inequality that includes a phenomenon economists Joseph Stiglitz and others call the "hollowing out" of the American middle class (Stiglitz 2013).

A growing body of research reveals trends including a long period of wage stagnation (Piketty et al. 2016), significantly less likelihood of earning as much as one's parents (Chetty et al. 2017) and diminishing lifetime earnings (Guvenen 2018) for cohorts entering the workforce since the late 1960s. In response to this trend, the Federal Reserve Board announced in early 2019 that it has created a new dataset to provide quarterly updates tracking U.S. wealth distribution (Batty et al. 2019). According to the Fed research team: "Wealth concentration is an important characteristic of the United States economy, with evidence mounting that concentration has increased over the last 30 years."

Barring a miraculous and sustained spurt of economic growth with profits more equitably distributed among the population, the reality is that as boomers begin consuming LTC, only about 15 to 20% will have enough income and assets to afford to pay for a variety of LTC services at home, in assisted living and in nursing homes. Half the population will not have enough in assets to finance LTC costs. The third of the population in between may or may not have enough to pay all of their LTC needs, depending on circumstances, saving habits and fortune.

Adding to the challenge, the last Survey of Consumer Finances (Bricker et al. 2017) shows that between 2013 and 2016, the only age group in which family wealth declined was for those age 65 to 74 (down from a median of $239,000 to $223,000). The Great Recession hit the tip of the boomer generation at the end of their working lives when it is difficult to recover financially. A study recently published in *Health Affairs* projected that by 2029, there will be 14.4 million middle-income seniors, 60% of whom will have mobility limitations and 20% of whom will have

high health care and functional needs (Pearson et al. 2019). While many of these seniors will likely need the level of care provided in senior housing, the authors estimated that more than half of seniors will not have sufficient financial resources to pay for it.

The ability of an older household to afford LTC comes into sharper focus when considering that family wealth drops significantly if a family member has a major LTC need. Computations by Richard Johnson at the Urban Institute, shared with Polzer during 2014 personal correspondence, show that total median household wealth for adults 65 and older drops from $263,200 (in 2015 dollars) for those with no limitations in performing activities of daily living (ADLs), to $94,200 for those needing assistance with two ADLs. Those needing help with two ADLs had virtually no net assets at the 25th percentile.

POSSIBLE SOLUTIONS

Policy interventions to prepare for these financial realities in an environment of growing inequality may require an increased willingness among policymakers to blend an expansion of government spending with private savings and financing incentives. For example, Polzer (2014) explored the possibility of setting aside part of defined contribution retirement savings to finance the needs of very old age and LTC along with other policy changes. The key policy change would be changing minimum distribution requirements that kick in at age 70½ to allow retirees to retain more funds to meet the risks of growing old: both of outliving their savings and needing LTC. The Setting Every Community Up for Retirement Enhancement, or SECURE, Act of 2019 just passed by Congress takes a modest step in addressing this issue by raising the minimum distribution age from 70½ to 72. LTC industry advocates hope that will result in older adults having more money to pay for long-term services and supports (Bowers 2019).

Findings of the Polzer piece included that this approach could only meet the needs of part of the middle-income population without additional public financing through Medicaid or other public coverage.

A recent Urban Institute proposal achieves substantial policy compromise by proposing catastrophic coverage financed by a payroll tax with benefits adjusted for income levels (Cohen, Feder and Favreault 2018). As Polzer noted in a recent *Health Affairs* blog, how the cost of expanding public coverage is distributed across income groups may exacerbate inequality (Polzer 2018). For example, paying for coverage expansion through a regressive payroll tax will lower the pay for low-wage workers and may not increase the value of the LTC coverage they eventually receive since most will continue to rely on Medicaid. This issue may well arise as Washington state implements first-of-its-kind legislation that will provide a modest LTC benefit financed by a payroll tax (Gleckman 2019).

While enriching the debate, proposals for major expansions of both public and LTC insurance are now far from reality: No expansion of public funding or marketplace incentives can be reasonably expected at the federal level in the next several years. Growing inequality and the eventual need to shore up Social Security's finances in the face of growing federal debt will only make it more difficult for lawmakers to impose taxes for new social programs (Polzer 2020).

Long-term economic trends suggest boomer demand will affect long-term care supply in unequal ways. Suppliers of high-end assisted living and home care will flex to meet the needs of the wealthiest. Medicaid will be tasked with the needs of the bottom half of the economic spectrum and likely will remain the de facto social insurance for the remaining middle class.

A related policy blind spot is that no one is asking yet how Medicaid will pay for the investment in infrastructure to handle increased demand, given Medicaid's submarket payment rates. Should middle-income boomers reasonably expect (if they care to look ahead or were advised to) that if they end up needing LTC, they might be sharing a room with two strangers in a 50-year-old nursing facility?

Cutler (2014) also addressed the issue of what would happens if policymakers do nothing. Among the questions he has raised: Are people prepared to work two or three more years just to keep the same Social Security benefits they would get now? Will policy holders and beneficiaries in the various insurance programs (Medicaid, Medicare, Veterans Administration and private insurance) accept a lower level of care and enforced managed care? Who will replace the missing family members as family size/demographics shift and, if current administration policies continue, the lack of imported low-wage labor?

Given LTC policy's divisive history, the concept of placing catastrophic public insurance atop private financing is heroic in its attempt to find middle ground. It creates a complex financing structure that would be difficult to combine with Medicaid. As already discussed, it also presents an equity issue by imposing a payroll tax that would reduce lower-wage workers' income while not providing enough benefits to prevent them from getting care similar to what they would have received under Medicaid.

A more progressive funding source would be fairer and more defensible. The catastrophic plan could help people with middle incomes afford LTC of their choice, but it still emphasizes the need for complementary private-sector financing and savings vehicles beyond traditional LTC insurance, along with increased financial education.

MORE REALISTIC ANSWERS

This leads one to what might currently be a small patch of the policy middle ground where action can be taken. Regardless of what type of government funding we end up with, people will have to "think in the present" and develop practical and modest-scale "stair steps" to help cover LTC costs.

Policymaking in this environment may devolve into seeking less ambitious but more practical interventions and tools. These could include increased flexibility to pay for LTC through 401(k)s or individual retirement accounts (IRAs), helping extended family members contribute to LTC costs for a relative, Sec. 529 savings accounts for elders, and further development of alternatives for traditional LTC insurance, such as hybrid products and underwritten annuities that can be bought as LTC need arises. Cutler (2018) also suggested an enhanced annuity that could be combined to the "chassis" of Social Security.

The idea behind the Social Security annuity concept is that Social Security itself is an annuity but one that may not be enough for many individuals. If one puts small amounts away every year starting early, these sums add up to real support for older age. Moreover, we know enough about behavioral patterns to know how to do this. It would have to have an auto-enrollment feature; the default has to be painless. And it has to be imbedded in the government program since we know private annuities have not proved attractive enough to meet this need.

We could also make it easier for individuals to use the resources they have now. About 70% of Americans have life insurance though much of it is term life that expires when a person leaves a job. Some could tap this more easily and pay for long-term care needs if public policy was changed.

Yet another idea is to better popularize the solutions we have already available but not publicized. For instance, people now have the option to buy inflation-adjusted Treasury bonds—which is a somewhat similar strategy to the Social Security annuity. But no one knows about it since the Treasury can't advertise. So, we certainly could do a better job telling people about these solutions we have "on the shelf" that could help. None of these options would be easy to execute or bring to scale, and policy supports such as tax breaks would face similar equity challenges as described above. There may be a need to target options and subsidies to groups in greatest need.

Finally, it's important to understand that any major LTC proposal is part of a much larger web of issues related to challenges facing Social Security, retirement savings, Medicare and Medicaid, and so on. All of these are under similar pressure both from growing inequality, pressure on scare public resources, and the aging of the boomers. An important take away is that distributional analysis should be done of the financing of any major change, especially if

it is likely to lead to increased financial stress for low-wage workers and public finances. Some analysts conclude, for example, that Social Security already redistributes resources from low-income earners and minorities to higher-income workers, in large part because lower-wage workers average much shorter life spans (Steuerle, Smith and Quakenbush 2013).

CONCLUSION

Despite these challenges, policymakers *should* continue exploring a range of larger scale public-private financing options. In the end, it may be more likely that the country expands public coverage by building upward from the Medicaid platform, rather than by imposing a limited Medicare-type benefit on top of Medicaid's dizzying complexity and interstate variety. If Medicaid costs reach crisis proportions for some states in 10 to 15 years, an alternative could be for the federal government to pick up a greater piece of Medicaid expenditures for residents with the greatest need or longest tenure—or for overall LTC spending (as Congress did after the recession by temporarily padding the federal match).

The collapse of the LTC insurance market also could reduce opposition to letting low- to middle-income people improve their lives and LTC choices by keeping more assets and income while still being eligible for Medicaid. Supplemental Security Income could also be increased to provide more choice of community-based housing.

A larger government role in financing LTC is a bridge American society and its leaders so far have not wanted to look at—much less attempt to cross. What we can do now is stop fighting old wars, understand major socio-economic shifts, and try to help the country's economic middle find practical ways to pay for LTC in ways that are compatible with larger policy responses down the road.

Karl Polzer is founder and CEO of the Center on Capital & Social Equity. He can be reached at *kpolzer1@verizon.net*.

John Cutler, J.D., is senior fellow at the National Academy of Social Insurance and senior adviser to WISER, the Women's Institute for a Secure Retirement. He can be reached at *johncutler@yahoo.com*.

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