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Written Testimony for the Subcommittee on Health of the Senate Finance Committee
"The Role of Long-Term Care in Health Reform"
Presented by the National Governors Association Executive Director Ray Scheppach
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Mr. Chairman and members of the committee, my name is Ray Scheppach, and I am the Executive Director of the National Governors Association. I appreciate the opportunity to appear before you today on behalf of the nation's Governors to discuss the critical issue of long-term care and the need to include this issue as part of health reform.

To put it simply, failure to reform the underfunded, uncoordinated patchwork of long term care supports and services is a failure to truly reform health care. There is an opportunity and a responsibility to do so now as part of the health reform discussions underway, and on behalf of the nation's governors, I urge you to give equal attention to this critical component of the nation's health care system.

The broader reform discussions thus far have focused on improving the coverage, cost, and quality aspects of primary and acute care services and emphasized the value of prevention. These are the exact same issues with respect to reforming long term care, and further reason why reform of both needs to occur simultaneously.

Just as we take steps to plan for our financial health and future, we – as a nation and as individuals – must take steps to plan for the entire lifespan of our physical health needs. To do so, the health care delivery system should be regarded as a continuum that provides services to meet needs across an individual's lifetime. In fact, it is usually a question of not whether an individual will utilize some type of long-term care insurance, but rather when along this continuum the services are needed.

The people of this country deserve a health care delivery system that is designed to allow individuals to remain healthy as they age, that delivers quality care that meets the needs of the elderly population, and that provides appropriate services and support to persons with disabilities.

Reform also must consider the diversity of those who will access long-term care services. This includes elderly individuals as well as persons with disabilities. Through the management of Medicaid and other public programs, states have learned that the needs and capacity of these populations can be strikingly different and therefore require different options within the long-term care system.

There are three fundamental aspects of long-term care reform: coverage and financing, coordination of care, and quality. These largely mirror the issues prevalent in the broader health reform discussions.

Financing: Medicaid

First, with respect to financing, there is a pressing need to create sustainable mechanisms for funding long-term care services.

The primary problem is that the Medicaid program has become the nation's de facto long-term care provider. This was never the intended purpose of the program, and it is not a purpose that can be sustained. In part, Governors have contributed to the status quo. They seek pragmatic, immediate solutions to pressing problems, and have used Medicaid to temporarily solve the critical long-term care needs of their most

vulnerable citizens. This has lessened the pressure on Medicare, and other payers to adapt to meet these needs, despite the fact that most seniors still think that Medicare will pay for their long-term care needs. This has also taken the pressure off of Congress to address this growing crisis, as evidenced by the need for today's hearing.

Medicaid now accounts for approximately 40 percent of all long-term care expenditures compared to 23 percent for Medicare, 22 percent for out-of-pocket expenditures, and nine percent for private insurance. With respect to nursing home coverage, the most intensive and expensive type of services, Medicaid pays an even greater share. The relationship between these various payers is fraught with tension as each tries to shift responsibility and cost to the others.

Since the elderly and persons with disabilities have significant health needs, they are among the most costly of Medicaid beneficiaries. In 2007, long-term care services, including nursing home intermediate care facilities, home health and personal care services, and home and community based services, accounted for about 32 percent of all Medicaid expenditures. Given the trends in both health care costs and the aging of the population, this is a tremendous strain on state budgets that simply is not sustainable.

States will continue to use the levers at their disposal to facilitate reform in the long-term care systems and to foster the full integration of persons with disabilities into society. For example, many individuals prefer to receive long-term care services in a community-based setting. States have made tremendous progress in strengthening the system of home and community-based services. However, the fact remains that Medicaid remains an institutional-biased purchaser of long-term and primarily non-medical services for persons with severe disabilities and elderly individuals.

While improving access to Medicaid home and community-based services is essential, it is NOT a solution to the long-term care challenge confronting us. Unfortunately, from a state budget perspective, states have now reached the point where additional funding for health care will come only at the expense of additional funding for education and other priority issues important to our citizens. The current fiscal crisis makes this problem all the more acute.

Financing: Other Options

There are a number of steps that could help further reduce reliance on Medicaid as a long-term care provider. In recent years, there has been growth in the availability of private long-term care insurance. Although the growth of this market has been slow, for those who have access to and can afford such coverage, it is a reasonable alternative to Medicaid and other sources of public financing.

Medicare must be at the table for these discussions as well, as efforts to restrict Medicare's home health care benefit usually serve only to shift costs to Medicaid. Medicare must, at the very least, embrace more of the nation's long-term care needs, primarily due to the overlapping – but currently uncoordinated – sets of services.

Other solutions could include the creation of a separate federal program devoted solely to the provision of long-term care services, or fundamental changes in tax and insurance policy to allow for universal access to a comprehensive set of long-term care benefits.

Again, the bottom line is that Medicaid cannot be the vehicle for long-term care reform. It must be a combination of individuals' resources, Medicare, Medicaid, and other revenue streams.

Coordination of Care

Although financing reform is critically needed, system reform maybe even more important. Entry into the long-term care system should involve a needs assessment followed by effectively planning, arranging, coordinating and monitoring the services that most appropriately meet the identified needs of the client.

The existing approach to long-term care is unfortunately disjointed and inefficient largely because there is little to no coordination between the various payers, providers, and those who use or need long-term care

services. The lack of financial incentives – and in some cases technical capacity – are barriers to integrating and coordinating care.

In addition to the particular implications for state health reform initiatives, the existing system is an acute problem for individuals insured by Medicare and Medicaid – known as the dual eligibles. There are more than seven million dual eligibles which represents 18 percent of all Medicaid beneficiaries. They are responsible for over 42 percent of all Medicaid expenditures and 24 percent of Medicare expenditures ($250 billion in federal fiscal year 2008). Yet nearly all receive uncoordinated care because the systems are not integrated. Despite recent efforts such as the creation of Medicare Advantage Special Needs Plans, there remain misaligned benefit structures, opportunities for cost-shifting, and unresolved tensions between the federal and state governments as well as an uncoordinated system of care for beneficiaries.

In addition, regardless of where the patient lives, the focus should be on management and treatment of chronic conditions. This means managing the flow of information and perhaps bundling services to streamline our system of care. In fact, many states are working on preventing the need for long-term care services through the use of aggressive care coordination programs and disease management strategies.

Quality

Finally, as with the committee's ongoing discussions on other aspects of health reform, health reform is an opportunity to improve the quality of long-term care services. Medicare and some states have begun to do this but more needs to be done to support and coordinate efforts to measure improvements in quality, in patient satisfaction, and to have better outcomes for the investment the federal and state governments make on long-term care services.

Standards are needed to enhance quality measurement. Together, measurements, standards and processes to coordinate care can drive development of different reimbursement models that more effectively and efficiently reward provision of high quality long-term care that is most appropriate for an individual's needs. When combined with transparency initiatives, measurements also serve to better inform consumers about their options. The federal and state initiatives to develop and adopt interoperable systems for health information technology and exchange will be essential in realizing this goal.

Health Reform and Federalism

As the Congress begins to think through broad health care reform, including long-term care, it is important to continue the existing federalism principles that were established when first Social Security was created in 1935, and then later with Medicare and Medicaid in 1965. At these times, the federal government took both financial and administrative responsibility for programs for individuals over age 65 (Social Security and Medicare). States, on the other hand, took administrative responsibility and partial financial responsibility for Medicaid, which at that time focused essentially on women and children. There were substantial efficiencies in this approach as states could coordinate with other state administered programs such as food stamps, welfare, and job training which focused on the same population.

This federal responsibility is also important as the elderly are distributed across states differently than the rest of the population. A federal redistribution, through the tax system and federal spending, can ultimately "hold harmless" southern and western states that have a high percentage of the elderly. In regard to long-term care, this federalism principle indicates that the elderly should become a full federal responsibility.

Conclusion

Postponing the discussion on long-term care perpetuates the fragmented system of care that exists today. Efforts to improve the financing mechanisms, care coordination and quality of long-term care services can be complementary and very important in the efforts related to strengthening the rest of our health care system.

Thank you Mr. Chairman and members of the Committee for this opportunity to speak about the place for long-term care in health reform. On behalf of the nation's governors, we look forward to working with you on meaningful reform legislation. I would be happy to answer any questions you may have.