



Summary

- Great paper with many helpful insights into the problem of financing long-term care.
- Innovative application of dynamic consumption models.
- Potentially useful for gauging the effect of various policy proposals affecting LTC financing.

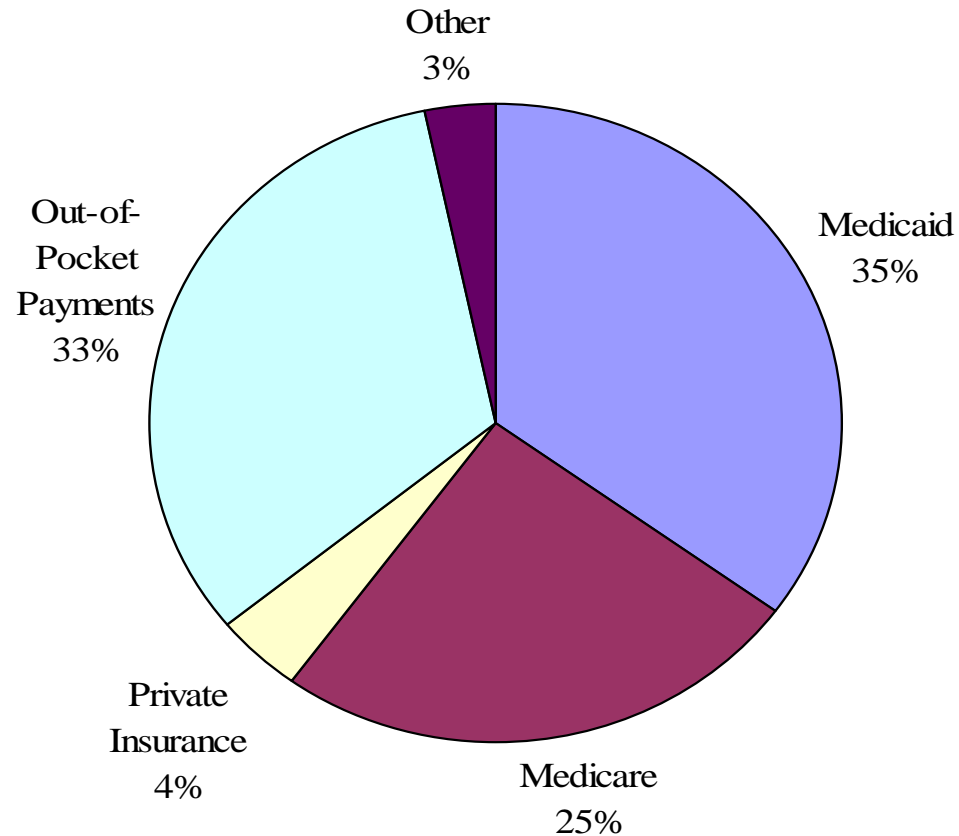


Long-Term Care Financing

- In 2004, LTC spending comprised about 1.2 percent of GDP.
- According to our 1999 estimates, that share should rise to about 1.4 percent in 2004.
- Those estimates assume that impairment rates continue to fall as they have over the past 20 years or so.
- However, if impairment rates remain as they have since the mid 90's, then spending could rise to just over 2.0 percent of GDP or higher.



Percentage Shares of LTC, 2004

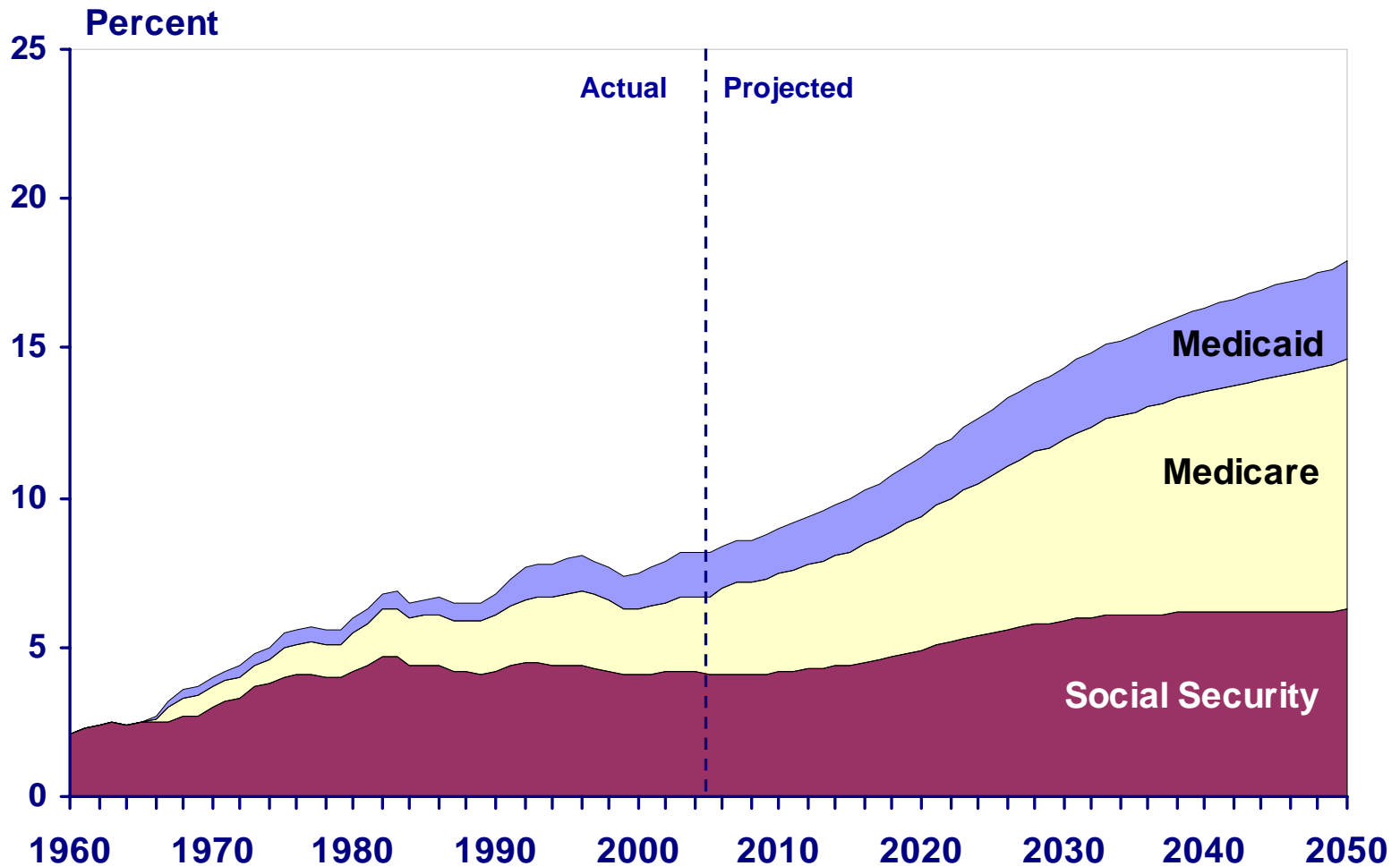


Source: Congressional Budget Office



Federal Spending for Social Security, Medicare, and Medicaid, 1960-2050

(as a percentage of GDP)



Source: Congressional Budget Office



Applications of the Model

- Alternative to models using simple elasticities of demand borrowed from the health insurance demand literature.
- Willingness-to-pay measure can be interpreted as a reservation price.
- May also be used to model HSAs and other new forms of health care insurance products that allow for wealth accumulation in addition to payment of health expenditures.



Simulate Effects of Policy Alternatives

- Tax incentives or other types of premium subsidies.
- Medicaid supplemental policies to “top up” coverage.
- Changes to Medicaid financial eligibility rules.



Further Sensitivity Analysis

- Vary utility more
 - $U_{nh} < U_{alf} < U_{hhc} < U_{ihhc} < U_{nc}$, or
 - $U_{3+adl} < U_{iadl} < U_h$.
- Reduce utility from consumption of non-nursing home services while in nursing home
- Vary marginal utility of consumption based on person's nursing home expectations
- Is it more reasonable to assume state-specific utility as the base case?



Implicit Tax or Catastrophic Coverage?

- The demand for more comprehensive coverage arises because under Medicaid:
 - Nursing home residents have few resources available for non-care consumption.
 - The spend-down requirements make it difficult for residents to return to the community once they recover.
 - No protection for bequests.
- Paper reports small effect of bequest motive



Implicit Tax or Catastrophic Coverage?

- Nursing home residents have little opportunity or reasonable inclination for non-care consumption.
- Table 1 says that nearly two-thirds of nursing home residents leave such care alive, but in reality, very few residents ever return home or are in a state in which they would consume at pre-nursing home levels.

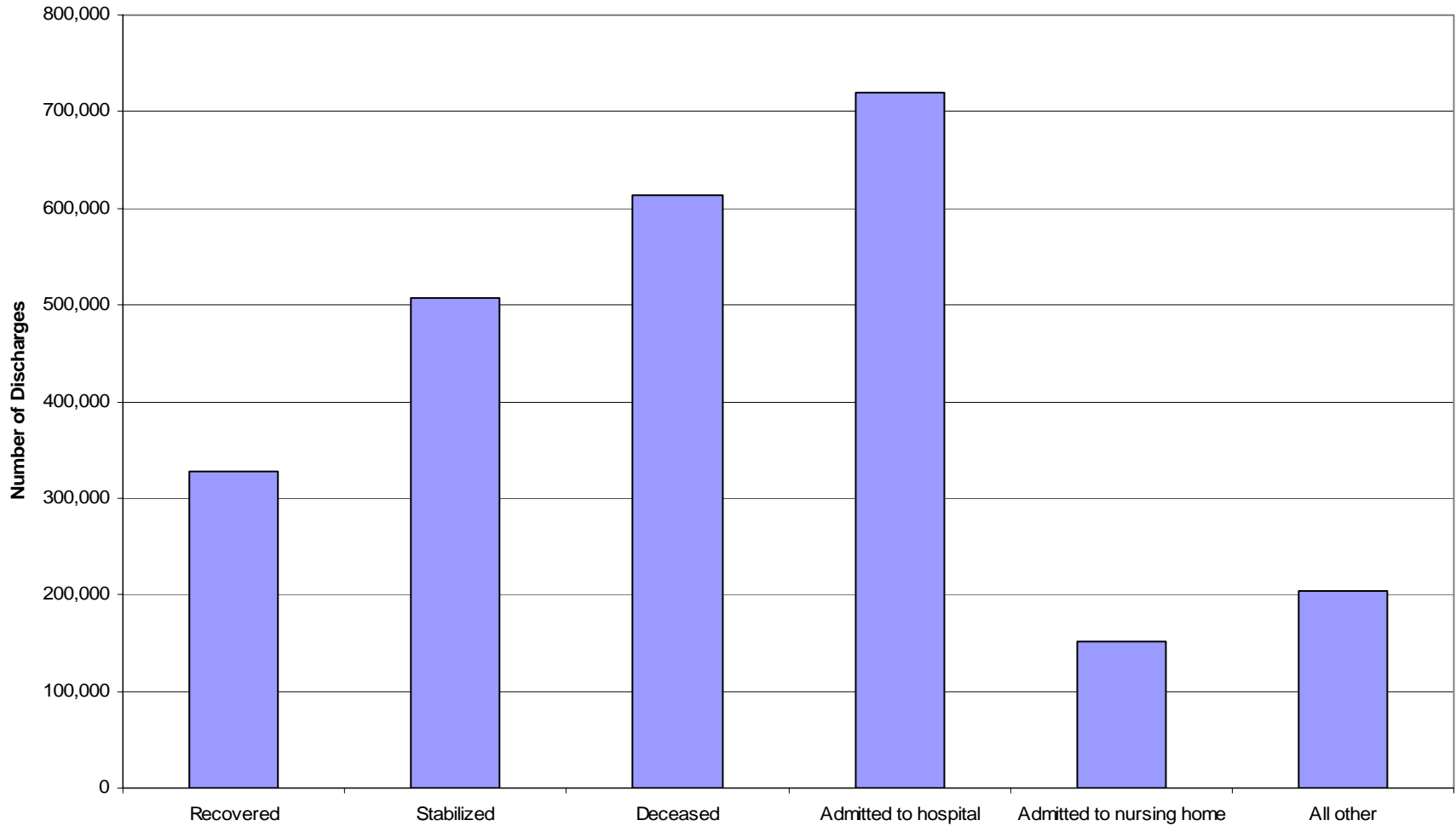


Implicit Tax or Catastrophic Coverage?

- 75% of residents leave the nursing home alive, but only a third of them are discharged to home (recovered or stabilized). The rest are going to the hospital, to another nursing home, or to another type of facility.
- Of that third, only 3.5% stay longer than 6 months.
- The bulk of residents discharged within 3 months probably never received “long-term care”. They were recovering from an acute episode.



Number of Discharges, by Discharge Reason, 1999





Number of Discharges, by Discharge Reason, 1999

<u>Reason for Discharge</u>	<u>Length of Stay*</u>			<u>Total</u>
	<u>Under 3 mos</u>	<u>3 mos to 6 mos</u>	<u>6 mos or more</u>	
Recovered	93.3	4.0	2.7	100
Stabilized	91.7	4.3	4.0	100
Weighted Average	92.3	4.2	3.5	100
Percent of all discharges			2.0	

* Reported as percent share in each length of stay category



Implicit Tax or Catastrophic Coverage?

- Lack of finances, rather than physical disability, may deter some people from leaving nursing home care.
- With more comprehensive insurance, discharges back home after extended stays might increase because residents would have the financial wherewithal to return.
- But even under spend-down requirements, a returning resident would still have their residence, a car, and their income (but not their wealth).