

National Spending for Long-Term Care

About 10 million Americans need long-term care—the assistance and services provided to people who, because of chronic illness or disabling conditions, are limited in their ability to perform basic activities.¹ Long-term care consists predominantly of assistance with essential, routine tasks of life, such as bathing or preparing meals. It also includes therapies to help improve a person's functioning, and special equipment, such as walkers and wheelchairs. Most people who need long-term care rely on unpaid help from family and friends. Still, spending for professional long-term care services—such as nursing home, home care, and assisted living services—is substantial.

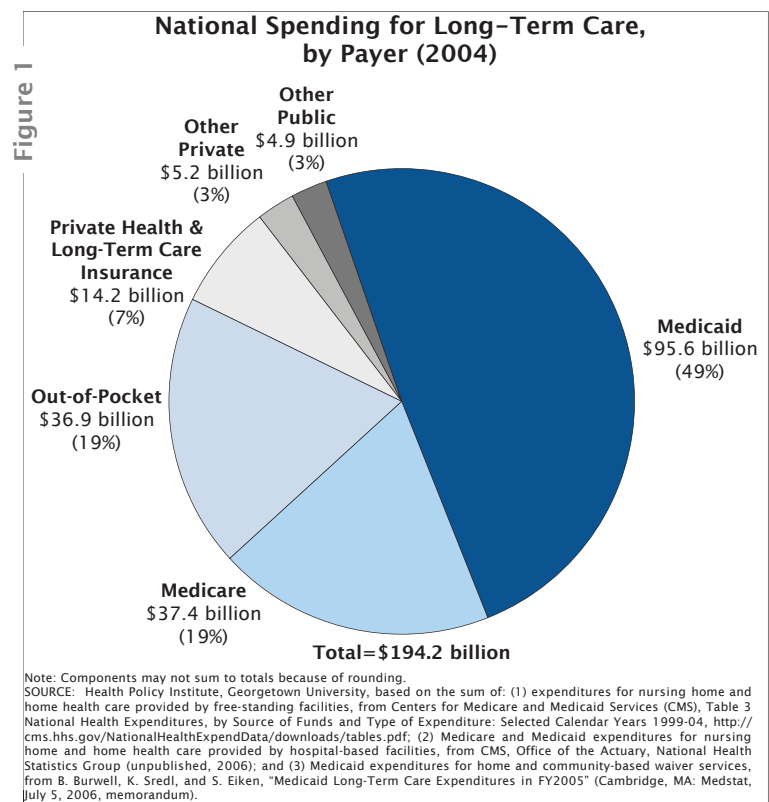
For individuals with extensive needs, long-term care services can be costly. According to a 2006 survey, the national average cost of a private room in a nursing home is about \$70,900 a year.² The average hourly rate for a home health aide is \$25. Based on this rate, four hours of home health aide services daily would total about \$36,500 over a year. For assisted living care, the average “base rate” for a private room is about \$33,300 per year. The base rate usually covers the room, meals, housekeeping, laundry, and personal assistance with activities of daily living; a person may pay more for additional services such as therapies or medications.

In 2004, national spending on long-term care totaled \$194 billion (see Figure 1).³ Most long-term care spending is for nursing home care (see Figure 2).

Medicaid

Medicaid is the nation's largest source of financing for long-term care, accounting for 49 percent of long-term care spending in 2004. Medicaid pays for medical and long-term care for people who have limited incomes and assets and meet additional eligibility criteria. Each state designs and administers its own Medicaid program, subject to federal requirements, with joint federal and state funding.

Under federal law, state Medicaid programs must provide nursing home care and home health care, which includes nursing and therapy services and related medical supplies. States may also opt to include personal care services as a Medicaid benefit.



In addition, all states currently provide home and community-based services under a waiver that allows them to provide these services to a specific, limited population (rather than to all Medicaid enrollees statewide). Home and community-based services can consist of a wide range of services, such as personal assistance, homemaker services, adult day services, and respite care. The Deficit Reduction Act (DRA) of 2005 allows states, beginning in January 2007, to provide some home and community-based services without a waiver, to establish enrollment limits for those services, and to restrict eligibility for them to certain locations.

Although the majority of Medicaid long-term care spending is for nursing home and other institutional care, the proportion going to non-institutional care has been growing. Non-institutional care accounted for 37 percent of Medicaid's long-term care spending in federal fiscal year 2005, compared with 19 percent ten years earlier.⁴

Medicare

The federal Medicare program, which provides health insurance to people age 65 or older and some people with disabilities under age 65, financed 19 percent of national long-term care spending in 2004. Although Medicare is not designed to pay for long-term care, it provides limited coverage of nursing home and home health care. Medicare pays for the first 20 days, and in part for an additional 80 days, of care in a skilled nursing facility following a hospital

stay of at least three days. Medicare also pays for home health care for individuals who are homebound and require part-time skilled nursing or therapy services. For eligible Medicare enrollees, Medicare's home health benefit covers home visits for skilled nursing; physical, speech, and occupational therapy; and home health aide services.

Out-of-Pocket Spending

Out-of-pocket payments by people receiving long-term care and their families financed 19 percent, or about \$37 billion, of long-term care services in 2004. The role of families of individuals with long-term care needs is much greater, however. Most people with long-term care needs—83 percent in 2000—live in community settings (rather than in nursing homes), where the vast majority are assisted by unpaid family members and friends.⁵ The indirect costs associated with family caregiving, including time away from paid work and other activities, can be sizable.

Private Insurance

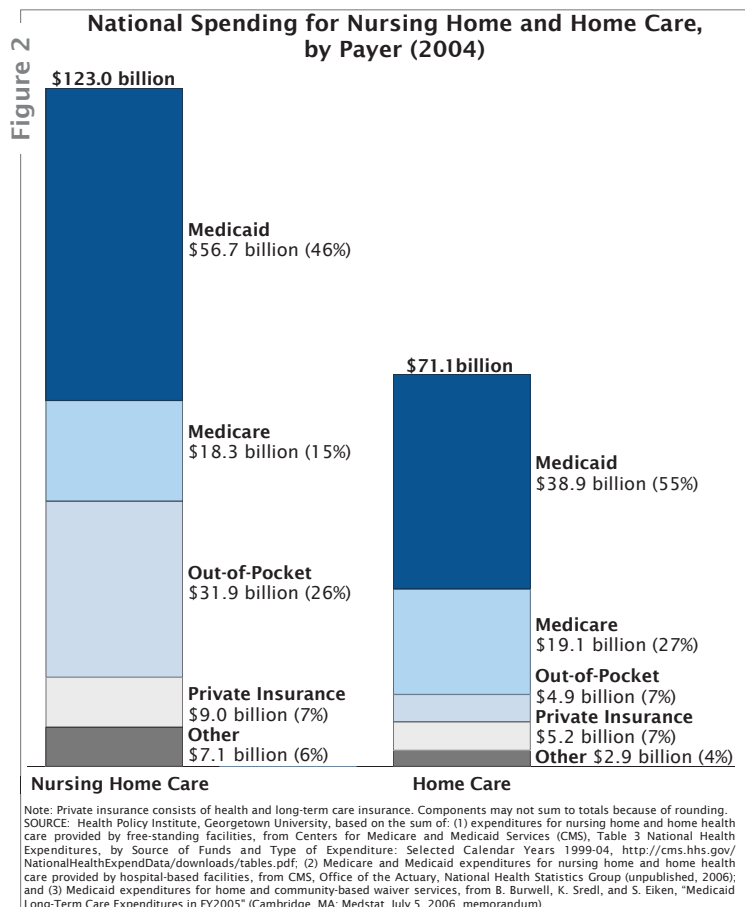
In 2004, private insurance—including both health and long-term care insurance—accounted for 7 percent of national long-term care spending. Like Medicare, private health insurance usually covers a limited amount of nursing home and home health care for rehabilitation following hospitalization or outpatient medical care. Private long-term care insurance currently plays only a small role in financing long-term care. In 2002, roughly 6 million people had private long-term care insurance policies and insurers paid about \$1.4 billion in claims.⁶

Other Payers

Other private and public sources accounted for 6 percent of total long-term care spending in 2004. Other private sources, such as charity care, spent \$5.2 billion on long-term care. Other public sources, which totaled \$4.9 billion in spending, include local, state, and federal programs. The Department of Veterans Affairs provides a range of services to veterans, including nursing home and home health care. Other federal programs, such as the Older Americans Act and the Social Services Block Grant, provide home and community-based services.

Policy Issues

Because few people have insurance for long-term care, most people face a risk of impoverishment if they need extensive care. Medicaid is the nation's safety net for individuals with long-term care needs. Given the wide variation in state Medicaid programs and their vulnerability to changing state budgets, the security of that safety net is uncertain. Also, despite most individuals' preference for home and



community-based care, institutional care continues to account for the majority of both Medicaid and total spending for long-term care.

Notes

1. S. Rogers and H. Komisar, *Who Needs Long-Term Care?* (Washington, DC: Georgetown University Long-Term Care Financing Project, May 2003, fact sheet).
2. Genworth Financial, *Genworth Financial 2006 Cost of Care Survey: Nursing Homes, Assisted Living Facilities and Home Care Providers, March 2006*, https://longtermcare.genworth.com/comweb/pdfs/long_term_care/Cost_Of_Care_Survey.pdf.
3. It is difficult to measure long-term care spending precisely. Because of limitations to the data, the estimate of national long-term care spending presented here includes some expenditures that an ideal measure would not, and omits others. It includes some services of nursing homes and home health agencies that could be considered "post-acute"—that is, short-term, rehabilitative services—rather than long-term care. On the other hand, the estimate does not include spending for the services of hospital-based nursing homes and home health agencies that are paid for by sources other than Medicare or Medicaid. It also does not include spending—other than spending under Medicaid home and community-based waiver programs—for home care workers who are not employed by agencies, home-delivered and congregate meals, adult day care, special needs transportation, and services of assisted living facilities that do not have an on-site nursing home.
4. B. Burwell, K. Sredli, and S. Eiken, "Medicaid Long-Term Care Expenditures in FY2005" (Cambridge, MA: Medstat, July 5, 2006, memorandum).
5. Rogers and Komisar, *Who Needs Long-Term Care?*
6. S. Coronel, *Long-Term Care Insurance in 2002* (Washington, DC: America's Health Insurance Plans, 2004).

