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WRITTEN TESTIMONY  
OF

*Steven Chies*

Chair

**American Health Care Association**

For the U.S. Senate Special Committee on Aging Hearing:

**Medicaid Crisis:**

*Could Long Term Care Partnerships Be Part of the Solution?*

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My name is Steve Chies, and I am Chair of the American Health Care Association (AHCA) – the nation’s largest association of long term care providers. In this capacity, I also serve on the Board of Directors and Executive Committee of the National Center for Assisted Living (NCAL), which is the assisted living voice of AHCA.

I would like to thank Senators Craig and Breaux – and every member of the Senate Special Committee on Aging – for providing us the opportunity to appear today. We admire and respect your genuine dedication and hard work on behalf of caregivers and the frail, elderly and disabled throughout America.

My testimony today is given on behalf of AHCA/NCAL and more than 10,000 member long term care facilities, including not-for-profit and proprietary skilled nursing facilities, assisted living residences, and facilities for the mentally retarded and developmentally disabled.

We represent over 1.5 million caregivers, and approximately 1.7 million residents and patients.

I also serve as Senior Vice President of Benedictine Health Systems in Cambridge, Minnesota, a not-for-profit company representing 60 facilities in the Great Lakes region, responsible for the care of 5,000 frail and infirmed individuals in both acute and long term care campuses.

I am also an independent owner -- taking an active part in two family-owned and operated facilities that have been in our family for three generations.

I have appeared before this Committee in the past to testify on long term care financing issues similar to those before us today, and we thank you for your consistent, diligent attention to the many challenges facing long term care.

A thoughtful discussion regarding Medicaid's chronic solvency problems -- and the extent to which the expansion of long term care insurance and partnerships can improve the financial stability of this key federal program -- is timely and necessary.

We know for certain the impending wave of aging baby boomers and advances in health care and medicine will allow many, many more Americans to live longer -- and these simultaneous developments require fresh, realistic approaches towards long term care financing.

As America will soon confront its greatest unfunded liability -- the public cost of future retirees' long term care needs -- Congress needs to investigate a variety of new approaches that utilize the tax code to more effectively meet these costs.

In that regard, AHCA and NCAL strongly support the Long Term Care Insurance Partnership Program Act of 2004 -- legislation introduced by Senators Craig and Bayh that expands the ability of citizens to purchase state-approved long term care insurance policies and take control of how and where their own long term care needs are met. Should the need for care exhaust the benefit of the policy, the Partnership program provides asset protection, allowing individuals to qualify for Medicaid, without "spending down" their total life savings.

The many benefits to this legislation are significant:

- It would conserve scarce Medicaid resources due to the fact long term care expenses will be increasingly met by the private sector;
- It would promote greater self-reliance and individual responsibility as Americans meet their own care needs as opposed to relying exclusively upon government funding;
- It would allow seniors to bequeath at least a portion of their assets to loved ones; and
- It would encourage the expansion of the long term care insurance market which will have a positive impact of helping to make policies more affordable.

In particular, Mr. Chairman, expansion of the long term care insurance market is especially important: for patients, expanding the market will bring about increased long term care funding stability and the concomitant benefit of higher quality care; for states and for taxpayers, the inherent benefit is reduced financial and budgetary pressure on Medicaid-financed long term care.

AHCA/NCAL have long advocated that individuals ought to receive care in the most appropriate long term care setting. The insurance model does just that. It promotes more individual choice -- and can help keep patients out of facilities if their care needs can be met in a less restrictive setting. It is a fact that most individuals would prefer to receive their care at home. This is a demand that will continue, and having one's own insurance provides more choices and more freedom.

With the roller coaster ride of funding instability produced by endless budget cuts, funding restorations, eligibility and benefit changes, more cuts and the general cycle of uncertainty that best characterizes federal long term care funding over the past decade – regardless of who controls Congress and the White House -- our profession is acutely aware of the linkage between Medicaid and Medicare funding instability and our ability to maximize patients' care quality. You cannot have both.

In this context, it is noteworthy that the Medicare Payment Advisory Commission's (MedPAC) March 2004 report to Congress specifically stated:

*“Many efforts are currently underway to improve quality in Skilled Nursing Facilities (SNF's) and nursing homes, but these efforts are grafted onto a payment system that is largely neutral or even negative with respect to quality.”*

Ongoing efforts to improve quality, therefore, will be enhanced by the continued expansion of the long term care insurance market.

The Partnership bill introduced by Senators Craig and Bayh is one good idea that must be pursued – but there are others as well.

An expansion of long term care insurance that incorporates the efficiency of the marketplace with the safety net guarantees associated with government involvement has the potential to merit strong bipartisan support.

Specifically, through tax incentives; deductions and credits, the nation's health care system can become more efficient, more responsive to patient needs and individual choices, and sustainable for the long term.

With diligent development and implementation, a public-private hybrid could make it possible for a majority of future Medicaid-eligible retirees to pay privately for the care they receive.

This can only be accomplished by fundamentally shifting the role of government – from government simply paying for services to government helping individuals save for their own long term care needs. Enactment of the Long Term Care Insurance Partnership Act is a critically important step toward achieving that goal.

Another initiative now serving as a bipartisan legislative precursor to a broader effort is the “above-the-line” tax deduction supported by President Bush and by U.S. Representatives Nancy Johnson (R-CT) and Earl Pomeroy (D-ND) and by Senators Charles Grassley (R-IA) and Bob Graham (D-FL). This proposal received additional support just last week with its inclusion in *The Ronald Reagan Alzheimer's Breakthrough Act of 2004* introduced by Senators Barbara Mikulski (D-MD) and Kit Bond (R-MO).

A deduction of this nature could help to dramatically increase the number of people who purchase long term care insurance by reducing its costs. Increasing the size of the pool will also drive down premium costs, making the insurance model progressively more appealing.

But to encourage broader based public participation, there would also be a need for a refundable tax credit targeted toward low- to moderate-income Americans – who will have the greatest need for government-paid long term care services currently provided by Medicaid.

For low- to moderate-income individuals, the refundable tax credit would fully or partially pay the premium cost of a long-term care insurance policy offered by the private sector, or by the federal government. Such a credit could be utilized in purchasing state partnership program policies.

Such a tax credit also makes insurance coverage more affordable to this segment of our population than simply providing a pure 'above-the-line' tax deduction.

Once tax incentives enable greater numbers of Americans to responsibly provide for their long term care insurance needs, there is a second logical step.

With an established insurance market it may become more feasible to look at shifting the government's role in the coverage of long-term care to the federal level – thereby relieving states of the increasingly onerous budgetary burden that is the focus of current debate in Washington and state capitols nationwide.

A fundamental consolidation of this nature would allow for the coordination of both acute and long-term care for the elderly and long term care for the disabled.

Most important, the coordination of care at the federal level will eliminate today's failed patchwork financing system, and create a more efficient, seamless system of care.

Every long term care stakeholder – patients, government, providers, advocates and others – would benefit from this consolidation process.

In order to help establish the legitimacy and necessary citizen awareness of a public-private program, there must be a national informational effort designed to help individuals understand their options – and the consequences of inaction.

The fact that 85 percent of Americans believe their long term care needs will be met by Medicare, Medicaid or their existing health insurance is alarming, and underscores the need for government to help educate and inform its citizens to understand how to prepare for their retirement and its financing.

When individuals understand the risks they face, the costs of care, and the options before them, we as a nation should be confident the vast majority of Americans will choose to act responsibly and plan for their future needs and the needs of their families.

This fundamental premise reflects American values: Americans want to control their destiny, and every individual must – and should – take some level of responsibility for their future, and that of their family.

If armed with the facts and the means, people will do what is right to protect their health, their family, and their economic interests.

With the proper planning and level of commitment this matter deserves, Congress can begin laying the groundwork for a long term care financing system that has the capacity to meet the care needs of millions of future retirees.

Through the Craig/Bayh legislation and tax incentive concepts I have outlined, through other vehicles like reverse mortgages and health savings accounts, and by addressing issues such as eliminating the 3-day-hospital-stay requirements for skilled nursing care under Medicare, we will have the capacity to fend off the inevitable collapse of Medicaid and perfect our nation's ability to ensure that the long term care needs of citizens are met in a way of their choosing.

There is no stronger supporter of Medicaid than AHCA, and we have very publicly and consistently called on Congress and the states to maintain its financial viability with appropriate levels of investment.

But no matter how much wishful thinking Medicaid supporters can muster, demographic realities require a change in policy and a transformation in thinking.

Two recent, significant events in Washington can help us focus our attention on the course we must now pursue:

The dedication of the World War II Memorial helps us realize the commitment we have to our frail, elderly and disabled – and those who yesterday and today are fighting to preserve, protect and defend freedom.

And just two weeks ago, we watched in wonder as hundreds of thousands of Americans from all walks of life came to honor a former President, Ronald Reagan, who understood the value and importance of freedom as we pursue our lives and our dreams.

At stake in the debate we are engaging in here today is indeed freedom – and how we as a nation can empower every American to preserve their independence, and that of their family.

Thank you for the opportunity to testify before you today, and we look forward to working productively and cooperatively with this Committee, with this Congress and with this Administration to do what America has always done when presented with a challenge of this scope: engage in honest debate, create a workable plan, earn the support and trust of the nation's citizens, and pursue a course that is in the best interest of every American.

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