



Reforms to Help Meet the Growing Demand for Long-Term Care Services

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As federal minister of health in Germany, Daniel Bahr oversaw the first essential reform of Germany's long-term care system after its introduction in 1994. Long-term care is a growing challenge in many countries, but this issue brief focuses specifically on Germany and the United States.

About 12 million elderly or disabled Americans rely on long-term care to help them with tasks ranging from eating and bathing to housekeeping and cooking.¹

The need for long-term care can arise at any age—about 40 percent of people who need this care are under age 65²—but the doubling of the elderly population over the coming decades means a substantial increase in the number of people who will need long-term care. The first of the Baby Boom generation reached the traditional retirement age of 65 three years ago, and each day for the next 18 years, about 8,000 more Americans will reach that milestone.³ As dramatic as these numbers may seem, the U.S. population is aging at a slower pace than other industrialized nations:⁴ By 2050, 1 in 5 American residents will be ages 65 and older, as opposed to fewer than 1 in 7 today.⁵ Germany, on the other hand, is a particularly fast-aging society: Today, 1 in 5 German residents are already ages 65 and older, and almost 1 in 3 will be those ages by 2050.⁶ At the same time, the German workforce is shrinking, and its overall population is projected to decline by 13 percent by 2050.⁷

And thanks to public health improvements and medical breakthroughs, millions of seniors in industrialized nations—including in the United States and Germany—are, on average, living longer and are healthier and more active during their retirement years. But the increased longevity of the senior population also means that millions more people are likely to need long-term care, especially as more seniors age into their 80s and beyond, when the rates of dementia and other cognitive and physical conditions increase. In addition, these conditions require more comprehensive, costly care. For instance, the rate of dementia is less than 1 percent for people under 65 years old, but it rapidly increases to more than 40 percent for those over 85 years old.⁸ By 2050, the annual number of new cases of Alzheimer's is projected to more than double.⁹

Together, these demographic changes have placed enormous pressure on the United States' inadequate mechanisms for financing long-term supports and services. Policymakers should consider comprehensive changes that will enhance how we pay for these services, balancing public and private insurance with family and friend caregiving. Germany—with its even greater demographic challenges—has taken precisely this approach and therefore provides an illustrative example for the United States.

While policymakers grapple with these broader issues and try to develop a comprehensive approach to the long-term care challenge that melds public insurance, private insurance, and private caregiving, there is a danger that too little will change. Incremental reforms, including those that build on promising community-based approaches to delivering long-term care, can start to address this growing challenge.

In particular, the following changes would help make long-term care more affordable and allow more individuals to live independently in their homes for longer periods of time:

- Enhance the value of long-term care insurance by offering refundable tax credits to help pay for coverage.
- Expand existing service-corps programs to offer more support for individuals living in the community.

These recommendations are not a comprehensive solution to the United States' growing long-term care needs. They are narrowly tailored, and the first, in particular, is focused primarily on those who are planning for their retirement needs; expanding the number of caregivers, however, will benefit all individuals who need these services.

It is our hope that as policymakers work toward comprehensive reform, these changes will encourage more people to plan for their long-term care needs and—once they need this care—allow individuals to stay in their communities for longer periods of time.

Targeted first steps to meet the growing need

These dramatic shifts in demographics, together with the high costs of long-term care, have already created challenges for seniors, their families, and policymakers. Millions of people receive help from family caregivers—relatives, partners, friends, and neighbors—in their homes.¹⁰ The value of this care vastly exceeds the total value of all paid long-term care; family caregiving in 2009 was estimated to be worth \$450 billion, while paid caregiving was only worth \$211 billion.¹¹

In addition, family caregivers face financial, physical, and emotional stress.¹² More than 60 percent of caregivers also have full-time jobs, and millions of Americans—primarily women—spend more than 20 hours per week caring for family members.¹³

But as birth rates have declined over the past decades and as families have become more geographically dispersed, there are fewer local family members to help seniors who need hands-on assistance.¹⁴ At the same time, far too few seniors and people approaching retirement age have the resources to pay for long-term care, and as a result, family members often help finance these services.¹⁵ Demand for paid, long-term care is also expected to outpace the supply of qualified professionals in upcoming decades.¹⁶ These challenges also create system-wide stresses as governments step in to help pay for a portion of these services through programs such as Medicaid in the United States and social welfare in Germany.

Enhance the value of long-term care insurance in the United States

Most Americans have not planned for long-term care and lack the financial resources to pay for it. The costs of various types of long-term care vary based on a patient's needs. For example, the average cost of hiring an in-home health aide is about \$20 per hour, the average cost of an assisted living facility is about \$42,000 annually, and the average cost of a nursing home is about \$87,600 annually.¹⁷

Many Americans also incorrectly assume that Medicare or private health insurance or their retirement plans will pay for these services during retirement.¹⁸ But Medicare only covers rehabilitation, limited stays in nursing homes, and home health visits for home-bound individuals whose situation is a result of an episode of acute illness.

Instead, in the United States, there are generally three funding sources for long-term services and supports: individuals' income and assets, private long-term care insurance, and Medicaid. None of these effectively protect individuals from significant financial risk. Only 20 percent of long-term care costs in the United States are paid for out of pocket;¹⁹ many older Americans lack the income or assets to cover the costs of services that meet their particular needs. And just 10 percent of Americans over age 50 have long-term care insurance to help fill in these gaps, in part because people commonly underestimate the high costs of long-term care.²⁰ As a result, private long-term care insurance only pays for about 12 percent of this care.²¹

Without long-term care insurance, the costs of even basic types of long-term care can be prohibitively expensive and quickly deplete whatever financial resources seniors may have. For the millions of seniors without sufficient financial resources or private insurance, Medicaid pays for their long-term care: The program funds more than 60 percent of paid long-term care in the nation.²² Eligibility for Medicaid varies by state, but low-income, disabled individuals and those who qualify as “medically needy”—meaning their medical and long-term care costs exceed their incomes and they fall under certain asset limits—are among those who generally qualify for the program.²³ As one expert has

noted: “Unlike insurance that protects against catastrophic expenses, Medicaid covers long-term care once financial catastrophe has occurred and resources are exhausted.”²⁴ In many states, the program also offers only limited services outside of institutions, which most people wish to avoid.²⁵

Comprehensive reform will need to address the adequacy, interaction, and design of these three sources of long-term care financing. Such reform must include a viable public insurance option that addresses Medicaid’s shortcomings, private long-term care insurance, and family and friend caregiving. This is the combination approach Germany has taken.

But even as American policymakers grapple with these larger issues, there are targeted policy changes that can help more Americans plan for their long-term care needs. U.S. policymakers should begin by following the example of Germany and help make long-term care premiums affordable.

Recent German reforms

While less expensive than in the United States, long-term care costs in Germany are also significant; the annual cost of nursing home care is about 38,400 euros, or about \$52,000.²⁶ Germany has a social insurance program for long-term care, but the policies only cover half of the needed care. To address this shortfall, the German government created a special incentive program for private long-term care insurance in 2013. Under the program, individuals receive a grant of 5 euros—about \$6.50—per month if they contribute at least 10 euros—about \$13—per month for an insurance policy. German law also prohibits insurers from excluding pre-existing conditions for those grant-aided insurance policies but requires a five-year waiting period before individuals qualify for benefits. This reduces adverse selection, which occurs when less-healthy individuals with greater needs disproportionately purchase insurance, driving up health care costs. Without a waiting period, people could delay purchasing insurance until they needed long-term care.²⁷

These grants have made private long-term care insurance more financially attractive for both young and middle-aged adults. There are also different levels of coverage available for purchase. For example, a 50-year-old man can purchase private insurance for 18 euros—about \$23—per month plus the 5 euro—about \$6.50—grant. This is 23 euros—about \$30—per month total. This level will qualify him for 600 euros—about \$750—per month in extra coverage, which will help pay for about half the shortfall if he eventually needs the highest level of long-term care. If he chose the highest premium—about 126 euros, or about \$160 per month—the extra coverage could pay for the entire shortfall.²⁸

Although the individual monthly benefit is rather low, the first year of the program has successfully increased the number of people with private long-term care insurance, in large part because the program has focused attention on this issue and has prompted more people to consider their future long-term care needs. In 2013, there were more grant-aided long-term care policies issued than the entire number of policies that were purchased between 1984 and 1994 combined—the first 10 years during which private long-term care insurance was available in Germany. And private insurers expect that by the end of 2014, the number of policies will double from 2013.²⁹

Encourage the purchase of qualified long-term care insurance policies in the United States

By offering refundable tax credits to people who purchase minimum levels of private long-term insurance, U.S. policymakers could target support for and enhance the benefits offered by private insurance. These changes are not a substitute for broad reform. For example, in Germany, private insurance is a supplement to a public insurance program. But policymakers can improve current incentives and encourage more individuals to purchase private insurance. These changes will be helpful because premiums for certain long-term care insurance policies are currently, in certain situations, tax deductible, but this tax benefit is of limited value and has failed to produce widespread purchase of these insurance products.³⁰

First, the benefit is a deduction, which helps higher-income individuals more than lower-income taxpayers. Tax credits, which directly reduce the amount that an individual pays in taxes, benefit all taxpayers equally because regardless of their earnings, a \$1 tax credit reduces taxes owed by that amount. Deductions, however, indirectly reduce taxes by lowering income that may be taxed. Because higher-income individuals owe more in taxes for every extra dollar they earn, deductions are worth more to higher-income individuals. A \$1 deduction saves a high-income taxpayer about 40 cents, but a middle-income taxpayer would only save about half of that amount on her taxes.

Second, even for those in higher tax brackets, this particular deduction is limited. The costs of premiums for qualified long-term care insurance policies—along with other medical expenses—are tax deductible only to the extent that these costs are greater than 10 percent of an individual's income. For taxpayers 65 years old and older, the threshold is lowered to 7.5 percent. There is also a limit on the amount of the deduction, which varies based on the taxpayer's age. For individuals ages 40 and under, the deduction is limited to \$370. This amount slowly increases, and taxpayers over 70 years old may deduct \$4,660. Medical expenses—including premium amounts—above these thresholds may not be deducted.³¹

Compared with the current, limited tax deduction, a refundable, sliding-scale tax credit exclusively for the purchase of long-term care insurance would offer far greater assistance for those who wish to buy these products. First, a refundable tax credit would guarantee that assistance is available to individuals even if they do not owe federal income taxes. Second, the amount of assistance would be income based, on a sliding scale, with higher-income individuals receiving smaller credits that gradually phase out.

Individuals would qualify for a credit if they bought a qualified long-term care insurance policy. To protect consumers, these policies would be “guaranteed issue,” meaning that any individual could purchase insurance regardless of their health or risk of needing care. Insurers also could not vary premiums or benefits based on an individual’s health status. Policies would include a minimum level of benefits that could not vary based on age or health status; the policies would also have protection against inflation. Policymakers should consider other protections and standardization, making it easier for people to understand exactly what services might be covered. Like the German system, there would also be a five-year waiting period. The new tax credit would be available to those who first purchase a policy when they are ages 50 and under; this will further reduce adverse selection and keep premium amounts affordable.

American policymakers should link these tax credits to changes to the Medicaid program. Today, certain Medicaid requirements can discourage the purchase of long-term care insurance and create harmful incentives that may cause some with long-term care insurance to drop that coverage in order to enroll in Medicaid.³²

Policymakers should change these rules and prohibit the long-term care benefits from insurance policies purchased with the tax credits’ help from being counted as income for Medicaid eligibility purposes. Medicaid should then cover the costs of necessary long-term care beyond those provided by the qualified long-term care insurance policies.³³

Because these changes should encourage individuals to purchase private long-term care insurance who might otherwise rely entirely on Medicaid to fund these needs, expanding these types of programs has the potential to lower federal and state Medicaid costs.³⁴ These savings could then be used to finance a portion of the tax credits.

[Help seniors remain at home](#)

Not surprisingly, most seniors wish to stay in their homes as they age; in the United States, about 90 percent of individuals ages 65 and older wish to remain at home.³⁵ In Germany, more than 90 percent of seniors also want to continue to live at home.³⁶ In the past, family members have provided most of the care that has made this option possible.

In both the United States and Germany, the number of potential caregivers is shrinking as the population ages. In the upcoming decades, the ratio of potential caregivers—adults between 45 and 64 years old—to people over 80 years old will decline from 7-to-1 to 3-to-1 in the United States, and it will decline even further in Germany.³⁷ Child-free seniors and seniors who do not live close to family are more likely to rely on paid caregivers, which can make aging in place even more difficult for these individuals.³⁸

Policies that support community-based care, increase the number of caregivers available to help seniors, and encourage individuals to stay safely in their homes for longer periods of time are therefore a critical part of addressing long-term care needs in both nations.

German support for community-based, long-term care

Germany provides grants to community-based organizations that offer long-term care to seniors living by themselves. These programs are particularly important for the growing number of German seniors who are child free or whose children do not live in the same area. For example, these grants could help support a group of elderly individuals who wish to live together in a house and receive various supports. Residents of these homes and communities are eligible for monthly grants of 200 euros—about \$270—for each person, which can help pay for long-term care.³⁹ Germany also helps pay for home modifications that allow seniors to stay safely in their homes. Seniors qualify for grants of up to 4,000 euros—approximately \$5,500—for age-based replacements, such as barrier-free kitchens or bathrooms.⁴⁰ Together, these grants help German seniors afford community-based care.

In Germany, local networks are part of a larger initiative aimed at helping seniors stay at home for as long as possible. The German government is setting up 500 Local Alliances for People with Dementia by 2016, which will provide assistance to people with dementia and their families to get the help and information they need.⁴¹ Germany has also funded 450 multigenerational homes, where people who need long-term care are living together with young families.⁴² Also, 300 neighborhood contact points—offices that provide information about various resources for seniors—were funded to help people who need care and their relatives get useful information.⁴³

Expand the number of U.S. caregivers

In the United States, like in Germany, there is a growing focus on community-based care and the expansion of initiatives that allow seniors to remain in their homes as they age. For example, U.S. programs such as urban villages and naturally occurring retirement communities, or NORCs, offer community-based services and supports.⁴⁴

The costs and services offered by each of these community-based organizations differ, but in many cases an administrator connects members with service providers and organizes other programs and activities.⁴⁵ Volunteers provide many of these services, but villages may also hire paid staff or contract with outside agencies to allow for additional resources.⁴⁶ The range of services and programs may also evolve as members' interests and needs change.⁴⁷ Although many organizations are autonomous, most are part of larger networks that shares best practices and other information.⁴⁸

For example, villages bring together neighbors who pay a fee to join the organization, which in turn offers services provided by both volunteers and paid staff, ranging from transportation, social and educational programs, meal delivery, and home safety modifications.⁴⁹ Lower-income seniors may qualify for discounted or free memberships.⁵⁰ Residents of Beacon Hill in Boston started the first village in 2001; there are currently 140 villages nationwide, with about 125 more villages in development.⁵¹

This financial structure could create longer-term challenges for these organizations. First, these communities must be large enough—and include sufficient numbers of fully paying seniors—to afford the costs of hiring staff and providing the range of services seniors need. Second, many have not been established for long enough periods of time to test the financial viability of caring for increasing numbers of older, frailer members with greater health care needs.⁵² For these reasons, this model may be more successful in urban and suburban areas with larger populations.⁵³

Villages are just one iteration of community-based, membership-driven groups that provide long-term care. NORCs are another. NORCs are areas in which at least 40 percent of the population is 60 years old or older and living in their own homes.⁵⁴ Residents in a number of these communities have partnered with local organizations and health care providers to offer Supportive Services Programs, or SSPs. SSPs offer transportation, home safety improvements, help with meals, care coordination, education, social events, and volunteer opportunities.⁵⁵

One of the oldest and most successful examples of this model are the communities run by the Jewish Federations of North America's New York chapter. Since 1985, this organization has partnered with federal, state, and local agencies to offer long-term care to seniors, and today, more than 50,000 seniors living in 40 communities in New York receive services through this model.⁵⁶ Many other NORCs have similarly relied on a patchwork of federal, state, and local government funds, but private support is increasingly critical, as governments have cut funding for these efforts in attempts to reduce spending.⁵⁷

U.S. policymakers should find ways to expand support for these and other community-based organizations that offer long-term supports and services.⁵⁸ One option is to create a new program sponsored by the Corporation for National and Community Service, or CNCS, that recruits and trains long-term caregivers. Legislation introduced by Rep. Michelle Lujan Grisham (D-NM) would create a National Care Corps for this purpose.⁵⁹ Corps members would provide important assistance to seniors and disabled individuals.

Similar to the proposed National Care Corps, a new Caregiver Corps would function as a more specialized AmeriCorps program, with trained volunteers assigned to work with existing nonprofits, public agencies, and community-based organizations such as villages and NORCs.

Caregiver Corps volunteers would complement the work of existing caregivers and volunteers. For example, these newly trained caregivers could work primarily with people who need a more modest level of long-term care supports and services, allowing professional caregivers to focus on members with greater care needs. Participants in the new program could also provide respite services for family caregivers.

Caregiver Corps should offer two options for those interested in enrolling in the training program. First, participants could choose a year-long track similar to other CNCS programs. Second, participants could choose a two-year track that would allow them to gain additional experience in areas such as care coordination, medication management, and monitoring health status. After their two-year term, participants would qualify for tuition assistance if they attended medical or nursing school or enrolled in another health care profession's program.

Expanding the number of available caregivers through these types of volunteer-based programs can help membership-based organizations remain financially stable, especially as members age and likely need more-intensive services and supports. This stability should, in turn, make these communities more attractive for individuals approaching retirement age.

Caregiver Corps volunteers would also support other nonprofits and public programs that provide long-term care. By strengthening a variety of sources of community-based services, this program could eventually result in state and federal savings if use of these services postpones the need for seniors to enroll in Medicaid. In this way, a new volunteer-based program could complement other, more comprehensive long-term care financing reforms.

Conclusion

The issue of how to finance and deliver long-term care is one of the most important issues that nations will confront in the coming decades; it affects the economic security of millions of families, as well as state and federal governments' budgets. Germany's initial reforms are an important starting point: Germany is one of the fastest-aging societies, which presents significant challenges, but there is still time to set the right incentives before Baby Boomers need long-term care in greater numbers.

Similarly, the targeted reforms outlined in this issue brief are not a substitute for the comprehensive changes needed to create a high-quality, sustainable long-term care system in the United States that reflects individuals' care preferences and addresses the needs of family and paid caregivers. But they are an important starting point that will help more Americans afford the long-term care they are likely to need in the coming decades.

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Endnotes

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