



The Daily Dish

The Challenge of Long-term Care

DOUGLAS HOLTZ-EAKIN, PATRICK HEFFLINGER | DECEMBER 5, 2016

In an interview with [60 Minutes on Sunday night](#), Speaker of the House Paul Ryan (R-WI) stated that repealing Obamacare will be the first priority for Congress once President-elect Trump takes office in January. Ryan said that the House fully intends to make good on their promise to bring relief to those struggling with the high cost of Obamacare. Ryan went on to say the House plans on passing a “patient centered healthcare” law that will bring Americans “affordable healthcare coverage”.

On Sunday the [Army Corps of Engineers](#) announced they will conduct an environmental impact review on the Dakota Access Pipeline project after federal officials denied the final permits necessary to complete the project. The Army Corps of Engineers said they hope to find a way to re-route the project so that the pipeline does not cross the Missouri River. The announcement from federal officials and the Army Corps of Engineers comes after the Obama Administration stepped in following a judge’s initial approval of the project. President-elect Trump is ultimately expected to be responsible for making the final decision on the pipeline once he assumes office in January.

Eakinomics: The Challenge of Long-term Care

The Wall Street Journal is [reporting](#) “Two insurance units of Penn Treaty American Corp., which have combined assets of about \$600 million and projected long-term-care claims liabilities topping \$4 billion, are on track to be liquidated early next year, according to filings in a state court in Harrisburg.” “The two Penn Treaty insurers have about 79,000 long-term-care policyholders. About 10% of them could lose some benefits in the long run, as most states cap the amount payable to individuals, possibly amounting to hundreds of thousands of dollars in some instances, guarantee officials said.”

These reports may be the leading edge of financial problems in the private long-term care insurance market. Regardless, they are a reminder of a serious problem facing the United States. The tidal wave of baby boomers will increasingly result in seniors who are unable to live independently. An estimated 7 in 10 seniors will need long-term care of some type during the their lives, and nearly 1 in 5 will receive two years of care in an institution of long-term care.

There are three potential ways to finance long-term care. The first, which remains the norm, is for care to be “donated” — typically by a family member. The second is to have care delivered by the private sector and paid for by government programs. The Community Living Assistance Services and Supports (CLASS) Act is the poster child for these attempts. The CLASS Act was passed via [deception](#). The Congressional Budget Office estimated that the CLASS Act, included in the Affordable Care Act, would reduce budget deficits by [\\$81 billion](#) over the next decade — an amount touted by the reform’s advocates. The CLASS Act, unfortunately, showed only the tax collections in the first decade. Its explosive spending growth was hidden beyond the budget window to stealthily swell deficits in the long run.

Recognizing the dangerous policy and budgetary foundations, then-Sen. Judd Gregg insisted on an amendment requiring that the administration “shall establish all premiums to be paid by enrollees for the year based on an

actuarial analysis of the 75-year costs of the program that ensures solvency throughout such 75-year period.” Then HHS Secretary Kathleen Sebelius sent a [letter to Congress](#) admitting there was not “a viable path forward for CLASS implementation at this time” and the CLASS Act was ultimately repealed.

What remains is Medicaid. In particular, Medicaid in part fills the gap by paying the cost of long-term care for low-income seniors – a combination of those who have spent down their savings while living in an expensive nursing home and higher-income financially savvy seniors who have shielded assets in a way that qualifies them for Medicaid.

The final possibility is private care financed by private insurance policies, precisely the situation in the Penn Treaty situation. Unfortunately, the private market has proven to be insufficiently robust. Ironically, Medicaid itself may be [responsible](#), as its coverage may be crowding out the private market.

In sum, the bulk of long-term care remains donated care and the need remains for reforms that can shore up a private market for long-term care insurance.