

# Who pays for long-term care?

About 10 million Americans need long-term care.<sup>1</sup> Long-term care refers to the assistance and services provided to people who are limited in their ability or unable to perform basic activities, such as bathing or dressing, because of chronic illness or disabling conditions. Most people with long-term care needs rely heavily on unpaid help from family and friends. Still, spending for long-term care services is substantial.

In 2002, national spending on long-term care totaled \$180 billion, or about 12 percent of total health care (including medical and long-term care) expenditures.<sup>2</sup> Nearly two-thirds of long-term care expenditures are for institutional care.<sup>3</sup>

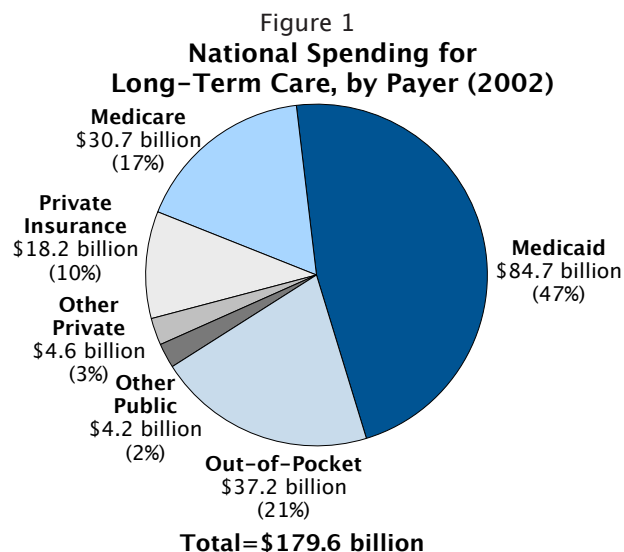
For individuals with extensive long-term care needs, long-term care services can be costly. In 2002, the average annual cost of nursing home care was \$52,000 for a semi-private room and \$61,000 for a private room.<sup>4</sup> The average hourly rate for home care provided by a home health aide was \$18.<sup>5</sup> At this rate, four hours of home care daily would total about \$26,000 annually.

Medicaid is the nation's largest source of financing for long-term care, followed by out-of-pocket payments by the people receiving care and their families. Medicare and private health insurance provide limited coverage for nursing home and home health care. Few people have private long-term care insurance, although the number is growing.

## Medicaid

In 2002, Medicaid accounted for 47 percent of national long-term care spending (see Figure 1) and 48 percent of national spending for institutional care. The Medicaid program pays for long-term care services for certain individuals who have limited resources. Medicaid is jointly funded by the federal and state governments and is administered by the states.

State Medicaid programs are required to provide



SOURCE: Health Policy Institute, Georgetown University based on: expenditures for nursing home and home health care provided by free-standing facilities from Centers for Medicare & Medicaid Services (CMS), National Health Expenditures by Type of Service and Source of Funds, Calendar Years 1960-02, <http://cms.hhs.gov/statistics/nhe/default.asp>; Medicare and Medicaid expenditures for nursing home and home health services from hospital-based providers from CMS, Office of the Actuary, National Health Statistics Group (unpublished, 2004); and Medicaid expenditures for home and community-based waiver services from B. Burwell, K. Sredli, and S. Eiken, "Medicaid Long-Term Care Expenditures in FY 2003" (Cambridge, MA: Medstat, May 25, 2004, memorandum).

nursing home care. In federal fiscal year 2003, institutional care accounted for 67 percent of total Medicaid long-term care spending (see Figure 2).

States are also required to provide medically necessary home health care, which may include nursing services, medical supplies, and some therapies. States may opt to additionally include personal care in their Medicaid program. They can also provide home and community-based services under a waiver of federal requirements. Waivers give states the flexibility to provide specific services to a specific and limited population and thereby control their expenditures for noninstitutional care.

In fiscal year 2003, home and community-based waiver programs accounted for two-thirds of Medicaid spending for noninstitutional care. The proportion of Medicaid spending for waiver programs has increased substantially over the past decade, from 5 percent in fiscal year 1991 to 22 percent in fiscal year 2003.

## Out-of-Pocket Payments and Family Care

Out-of-pocket payments by people receiving long-term care and their families financed 21 percent, or \$37.2 billion, of long-term care services in 2002 (see Figure 1). The role of families of individuals with long-term care needs is much greater, however. Family members often provide many hours of informal or unpaid care to their loved one. Only 8 percent of community-dwelling adults receiving long-term care depend solely on paid help.<sup>6</sup> The indirect costs associated with family caregiving, including time away from paid work and other activities, are also substantial.<sup>7</sup>

## Medicare

The federal Medicare program, which provides health insurance to people age 65 or older and some disabled people under age 65, financed 17 percent of national long-term care spending in 2002. Although Medicare is not designed to pay for long-term care services, it provides limited coverage of nursing home and home health care to Medicare enrollees who meet certain requirements. 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.

## Private Insurance

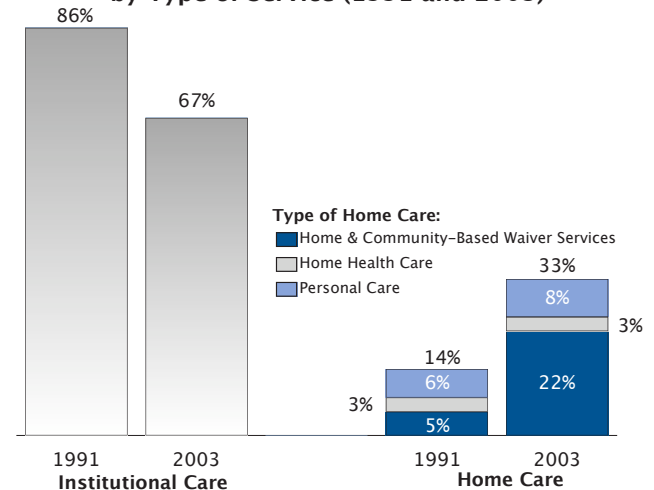
In 2002, private insurance, including both health and long-term care insurance, accounted for 10 percent, or \$18.2 billion, of national long-term care spending. Like Medicare, private health insurance usually covers a limited amount of nursing home and home health care. Although private long-term care insurance is specifically designed to cover long-term care, it is a relatively new product and few people have it.

The private long-term care insurance market is growing, however. Between 1991 and 2002 the total number of policies ever sold grew from 2.4 million to 9.2 million.<sup>8</sup> America's Health Insurance Plans reports that as of December 31, 2002 roughly 7 in 10 individual policies ever sold were still in force. This suggests that roughly 6 million people were insured by private long-term care insurance policies. In 2002, insurers paid about \$1.4 billion in claims.<sup>9</sup>

## Other Payers

Other private and public sources accounted for 5 percent of total long-term care spending in 2002. State and local spending constitutes about half of other public expenditures.<sup>10</sup> The Department of Veterans Affairs provides a range of services to veterans, including nursing home and home health care, and support to their caregivers.<sup>11</sup> In addition, several other federal programs, including the Older Americans Act and the Social Services Block Grant, provide home and community-based services for older, disabled people.

Figure 2  
Distribution of Medicaid's Long-Term Care Spending, by Type of Service (1991 and 2003)



Note: Years are federal fiscal years.  
SOURCE: Health Policy Institute, Georgetown University, based on data from B. Burwell, K. Sredli, and S. Eiken, "Medicaid Long-Term Care Expenditures in FY 2003" (Cambridge, MA: Medstat, May 25, 2004, memorandum).

## Policy Issues

Because insurance coverage for long-term care is limited, most people face the risk of impoverishment in the event that they need extensive care. Medicaid is the nation's safety net for individuals with long-term care needs. Given the tremendous variation in state Medicaid programs and their vulnerability to changing state budgets, the security of that safety net is uncertain. Further, despite most individuals' strong 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. Figure 1 and Centers for Medicare & Medicaid Services, *National Health Expenditures by Type of Service and Source of Funds, Calendar Years 1960-02*, <http://ems.hhs.gov/statistics/nhe/default.asp> (accessed July 26, 2004).
3. Ibid.
4. MetLife Mature Market Institute, *MetLife Market Survey on Nursing Home and Home Care Costs* (Westport, CT: MetLife Mature Market Institute, 2002).
5. Ibid.
6. Rogers and Komisar, *Who Needs Long-Term Care?*
7. L. Thompson, *Long-Term Care: Support for Family Caregivers* (Washington, DC: Georgetown University Long-Term Care Financing Project, March 2004, issue brief).
8. S. Coronel, *Long-Term Care Insurance in 2002* (Washington, DC: America's Health Insurance Plans, 2004).
9. Ibid.
10. Centers for Medicare & Medicaid Services, *National Health Expenditures*.
11. J. Tilly, S. Goldenson, and J. Kasten, *Long-Term Care: Consumers, Providers, and Financing - A Chart Book* (Washington, DC: The Urban Institute, 2001).

## About the Project

The *Georgetown University Long-Term Care Financing Project* pursues analysis designed to stimulate public policy discussion about current long-term care financing and ways to improve it. The project is supported by a grant from the Robert Wood Johnson Foundation. Harriet Komisar and Lee Shirey Thompson wrote this *Fact Sheet*.

