Fact Sheet

Medicaid: A Program of Last Resort for People Who Need Long-Term Services and Supports

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Medicaid provides a critical safety net not only for low-income people, but also for formerly middle-income people who have spent their life savings paying for long-term services and supports (LTSS). Most older people will need some LTSS during their lifetimes, and nearly a third of people turning age 65 will deplete their savings and will need to rely on Medicaid assistance.

A common misperception about Medicaid is that it is a health insurance program only for poor people. In fact, Medicaid also helps millions of people of all ages who have disabilities and need long-term services and supports (LTSS).

Our nation lacks a comprehensive national solution to provide LTSS to people who need help with daily activities in order to maintain their independence. Family caregivers provide most assistance, but those who need more help often deplete their life savings and must rely on Medicaid.

When faced with disability, people have several options for meeting their needs:

- **Family caregivers.** They can rely on family and friends to provide services and supports.
- **Private long-term care insurance.** If they have planned ahead and can afford it, they can rely on private long-term care insurance to pay for the services and supports they need.
- **Out-of-pocket spending.** They can pay with their incomes and draw down their assets to pay for LTSS.
- **Medicaid.** When the above approaches are no longer adequate, millions of formerly middle-income Americans turn to Medicaid to help pay for LTSS.

Unpaid Caregivers Provide the Bulk of LTSS

In 2005, 88 percent of older people living in the community who needed help with two or more personal assistance tasks received assistance from family and other unpaid caregivers, and only 29 percent received services from paid providers.[1] In the United States, 34 million people age 18 or older provided unpaid care at any given time during 2007 at an estimated economic value of $375 billion, which was greater than all of Medicaid spending for both medical and LTSS.[2] Although family caregivers provide essential LTSS, they are often at risk of becoming patients themselves because of the physical and emotional stress of caregiving.[3]

Few People Have Private Long-Term Care Insurance

Private insurance pays for less than 10 percent of the nation's LTSS bill.[4] In 2008, 7.6 million Americans age 55 and older had private long-term care insurance, accounting for about 10 percent of adults in this age group.[5] Take-up rates for private long-term care insurance are low because many

consumers cannot afford the premiums, cannot qualify because of medical underwriting, or fail to plan ahead.

The average premium is about $189 per month in the individual market and about $57 per month in the group market.[6] Purchasers in the group market are, on average, younger than those in the individual market, accounting for some of the price differential. However, people who already have disabilities cannot qualify for private long-term care insurance, even if they can afford it. Moreover, most consumers do not understand that their current insurance does not cover LTSS expenses. People often mistakenly think that their health insurance or Medicare will cover these expenses, so they do not realize that they need additional insurance coverage.

The Likelihood of Needing LTSS Is High

Roughly 7 out of 10 people turning age 65 will need LTSS during their lifetimes. People now turning age 65 will need LTSS for an average of three years, and 2 out of 10 will need care for five or more years.[7]

Many People Pay Out-of-Pocket for LTSS

About 6 percent of those turning age 65 are projected to pay more than $100,000 of their own money for this care. Thirty percent will likely receive Medicaid LTSS assistance yet also contribute $35,000 out-of-pocket for this care.[8] Most people who need LTSS must pay for a substantial portion of these costs out-of-pocket. Only after they deplete almost all of their assets will Medicaid pay for LTSS, and beneficiaries must still contribute nearly all their income toward the services they receive.

Medicaid Is the Largest Payer for LTSS

In 2009, Medicaid spending for LTSS was more than $114 billion.[9] This reliance on Medicaid results in large part because Medicare and private health insurance do not cover long-term institutional or home care services. Medicare pays for some limited skilled nursing home and home health services, but only for a limited time after a major acute care episode, typically after a hospital stay.

More than 3 million people, or 7 percent of Medicaid recipients, receive Medicaid LTSS,[10] but the services they receive account for about one-third of total Medicaid expenditures.[11] Covered Medicaid LTSS can vary widely by state but generally include a range of services such as nursing home care, personal care, and skilled home health care. Because of the high cost of nursing home care, Medicaid covers nearly two-thirds of nursing home residents as the primary payer.[12]

LTSS Are Costly and Can Wipe Out Life Savings

While the costs of LTSS vary widely, all too often they cause people to spend down their life savings. Table 1 illustrates the national median costs for a range of LTSS.

Table 1
Private Pay Cost of Long-Term Services and Supports, 2010*

Service	National Median Daily Rate
Homemaker Services	$72**
Adult Day Health Care	$60
Assisted Living Facility	$106 ($38,690 annually)
Nursing Home (Private Room)	$206 ($75,190 annually)

*Medicaid typically negotiates a lower rate.

**Based on four hours per day.

Source: Genworth Financial. *Genworth 2010 Cost of Care Survey*. Richmond, VA: April 2010.

Medicaid Is a Safety Net for Formerly Middle-Income People Who Have Spent Their Savings on LTSS

Because Medicaid is for those in financial need, applicants must meet both income and assets tests in addition to demonstrating the need for services. Income standards are tied to certain percentages of the federal poverty level or to Supplemental Security Income, depending on the applicant's eligibility category and the state.[13] In most states, to be financially eligible for Medicaid LTSS, an individual must have $2,000 or less and a couple must have $3,000 or less in assets.[14]

But with a private room in a nursing home costing on average more than $75,000 per year, many people soon exhaust their resources and need to turn to Medicaid. Thirty-five states plus the District of Columbia allow older people and adults with disabilities whose incomes exceed the normal eligibility standards to qualify for Medicaid if they also have high medical expenses that reduce their remaining income to within the income eligibility standards.[15] These "medically needy" programs enable people with very high medical or LTSS expenses to receive assistance from Medicaid.

Once people receive Medicaid, they must contribute a significant amount of their incomes toward the cost of LTSS. Medicaid allows people in nursing homes to retain a limited amount of money, ranging from $30 to $70 per month in 2009, for personal care needs.[16] States are required to apply spousal protection rules to married couples when one spouse is in a nursing home in order to protect the spouse who is living in the community from impoverishment. Ten percent of those who eventually qualify for Medicaid will spend more than $100,000 of their own money.[17] States are mandated by law to recover the costs of LTSS and other related Medicaid services from the estates of certain beneficiaries, which can include a lien against a beneficiary's property.

Medicaid Denies LTSS Coverage to Those Who Transfer or Shield Assets to Qualify

When a person applies for Medicaid LTSS coverage, the state conducts a review to see if the applicant has transferred assets to family members or others to become financially eligible for Medicaid. Although Medicaid exempts certain transfers, such as paying off debt, an applicant who transfers assets for less than fair market value is disqualified for Medicaid coverage for a period of time. The Deficit Reduction Act of 2005 tightened Medicaid rules to ensure that people could not become eligible for Medicaid by inappropriately shielding their wealth.

A Government Accountability Office investigation showed that most older adults have limited incomes, and only a small percentage of those with low incomes transfer cash. In 2002, more than 80 percent of approximately 28 million older households had annual incomes of $50,000 or less, and about half had nonhousing resources, excluding the primary residence, of $50,000 or less.[18]

More than one-third (37 percent) of older households had both income and nonhousing resources at or below the median; out of this group, about 10 percent transferred cash, which averaged $4,000 within the previous two years of the study. Cash transfers are less likely to occur in households with lower incomes and resource levels and among people with disabilities.[19]

Conclusion

Most older Americans will one day need LTSS. Most will begin by getting help

from family members and paying out-of-pocket. However, nearly a third of people turning age 65 will have costs that exceed their ability to pay and will need Medicaid assistance. Middle-income Americans currently have few options to help them pay for the high cost of LTSS. For those who have spent down their life savings paying for LTSS, Medicaid provides a critical safety net.

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