April 20, 1988

PROVIDING FOR THOSE IN NEED: LONG-TERM CARE POLICY

Peter J. Ferrara
John M. Olin Fellow

INTRODUCTION

Many American families face the expense of assuring adequate long-term treatment and care of elderly relatives who no longer can perform basic living activities for themselves. Many of the elderly who have no relatives to help them must face these costs alone. In some cases, families also must struggle through the emotionally draining experience of a close family member's severe, long-term illness, making the financial burden even less bearable. There is broad agreement that, given the rising cost of such long-term care plus the aging of America, sound policies and institutions are required to meet such vital concerns.

This does not mean, however, that Congress should declare open season on younger taxpayers, or that family members should be free to avoid their responsibilities by shifting costs onto Uncle Sam's shoulders. What it does mean is that policy makers should begin to analyze the issue carefully and to determine the appropriate roles for the private and the public sectors, rather than engage in a buying spree for the elderly vote, leaving the tab to be picked up by future governments.

Fear of Improverishment. It is not the government's responsibility to underwrite the living expenses of every American who reaches a certain age. It is, however, appropriate for the government to pay for the essential long-term care expenses of those Americans who otherwise would be unable to meet such costs, or could do so only with great hardship. Federal and state governments already spend over $20 billion each year fulfilling this responsibility through Medicaid and other programs.

As part of a general reform of long-term care policy, such public assistance should be expanded for elderly couples, since today's nursing home expenses for a disabled spouse often can impoverish the noninstitutionalized spouse. Moreover, all long-term care assistance should be pulled out of Medicaid, which was intended to be strictly a medical care program, and provided through a separate program. Specifically designed to serve the long-term care needs of those without adequate funds, it could be known as Long-Term Care Assistance, and those Americans who have sufficient resources should use their own funds to pay for long-term care directly or through private insurance. The average worker should not be taxed to pay for the nursing home expenses of the well-off elderly.

An Estate-Planning Issue. With the government providing assistance to those Americans without sufficient funds to pay for nursing home care, the remaining issue is not a problem of access to care, which is assured, but that of how to prevent the assets of the elderly from being ravaged by nursing home costs. This is not really a health policy issue at all. It is an estate planning issue, which can be addressed best through private sector insurance and other private financial mechanisms. The government should not preserve substantial private estates through public assistance at the expense of the general taxpayer. Some of the savings of the more affluent elderly could be used to finance the private insurance to protect the rest. Moreover, the government should not allow affluent adults to avoid the family responsibility of caring for their elderly parents who could remain at home by placing them in nursing homes at public expense.

To the extent that government should be involved in helping these wealthier Americans, it should be to ensure that they take steps to protect their resources. In particular, the government should promote the expansion of private long-term care insurance and make it more attractive for workers to save during their working years for long-term care services and insurance in retirement. Such measures would maximize the private resources available to finance long-term care and reduce the need for government spending.

Calamitous Economic Consequences. Some lawmakers propose that the government should pay for every American's long-term care costs, at home and in nursing homes, through a new social insurance program financed by increased payroll tax rates and other tax hikes. Such a program would be enormously costly. Not only would most current private long-term care expenditures simply become a federal expense, but with the government paying the bills, far more elderly Americans would enter nursing homes or use paid-for home health services. With such heavy government subsidies stimulating demand, prices for such care would likely soar as well. Such a program could potentially cost as much as all of Medicare today — around $80 billion per year.

The economic consequences of such a program could be calamitous. Payroll tax rates already are far too high. These taxes already destroy jobs and retard economic growth. Payroll taxes need to be cut, not increased. Increasing taxes sufficiently to finance this new entitlement program would be a crushing body blow to the economy. Indeed, adopting such a program for the elderly at a time when the budget deficit is already huge and the baby boom generation is moving steadily toward retirement would be foolhardy.

LONG-TERM CARE IN AMERICA

About 5 percent of the elderly, or about 1.5 million retirees, reside in nursing homes.[1] Such residents need assistance in performing daily living activities and often are immobile. The average cost of nursing home care is about $22,000 per year.[2] Discussions of long-term care issues, however, usually fail to note that nursing home residents typically stay in the homes for relatively short times.

- ◆ 52 percent of those who enter a nursing home do not stay more than three months;
- ◆ 63 percent do not stay for more than six months;
- ◆ 75 percent do not stay for more than a year;
- ◆ Only 16 percent stary more than two years.[3]

Moreover, only 29 percent of the elderly who need long-term care are in a nursing home.[4] The rest receive such care from spouses, adult children, friends, and to a lesser extent, from paid home health care professionals.[5]

Medicare and Medicaid

Medicare generally does not pay for nursing home expenses. The program does pay the full cost of 20 days of care in a skilled nursing facility (basically a nursing home that provides more intensive medical, therapeutic, or rehabilitative treatment), if the care follows a hospital stay of at least three days and is for the same medical problem treated in the hospital. In theory, Medicare pays for an additional 80 days of such care, but the program charges the retiree a deductible of $67.50 for each such additional day, which is about equal to the average daily fee for skilled nursing care.[6] As a result, Medicare benefits cover only about 2 percent of total nursing home costs for elderly Americans.[7]

---

1 National Center for Health Statistics, "Use of Nursing Homes by the Elderly: Preliminary Data from the 1985 National Nursing Home Survey," *Advance Data*, Number 135, May 14, 1987.

2 Task Force on Long-Term Health Care Policies, *Report to Congress and the Secretary*, U.S. Department of Health and Human Services, September 21, 1987, pp. 19, 69.

3 *Ibid.*, pp. 84-91.

4 *Ibid.*, p. 76.

5 *Ibid.*

6 The average cost of a day of care in a skilled nursing facility in 1985 was $61.01. National Center for Health Statistics, "Nursing Home Characteristics: Preliminary Data from the 1985 National Nursing Home Survey," *Advance Data*, Number 131, March 27, 1987, p. 7.

7 General Accounting Office, *Long-term Care Insurance, Coverage Varies in a Widely Developing Market* (Washington, D.C.: National Health Council, 1986), p. 8.

Medicare also will pay for an unlimited number of medically necessary home health care visits to provide skilled nursing care and physical therapy, if the retiree cannot leave his or her home. Medicare, in fact, pays about one-third the cost of all professional home health services.[8] But the program does not cover household cleaning, meal preparation, help in bathing and dressing, or other basic daily living activities.

It is Medicaid, which assists low-income families both young and old, that provides the lion's share of federal nursing home care assistance, covering about 42 percent of such expenses.[9] Medicaid will spend about $18 billion this year on nursing home care, about one-third of all Medicaid expenditures.

Medicaid Benefits. Unlike Medicare, Medicaid is a joint federal-state program, and its eligibility criteria and benefits vary. To be eligible for Medicaid this year, an elderly individual generally must have less than $1,900 in saved assets, while a couple must have less than $2,850. Elderly individuals or couples can still qualify if they have in addition a home of any value, an automobile with a market value of no more than $4,500, and household goods and personal effects of "reasonable" value. In addition, their income this year generally must not be more than $354 per month for an individual or $530 per month for a couple. Those with incomes above these limits also qualify for Medicaid coverage if their net income after medical expenses, including nursing home expenses, is less than these limits.

Once an elderly person qualifies for Medicaid, the program will pay the full remaining cost of necessary nursing home care after the retiree contributes his or her income to such care, excluding a small personal allowance, and generally $354 a month for the support of a noninstitutionalized spouse. The program also will pay for the full cost of physician-ordered and -supervised home health care services without any contribution from the retiree's income. These services include personal assistance and even homemaker duties.

Private Insurance. The market for private long-term care insurance is in its infancy, but growing rapidly. Some 70 insurance companies offer such policies, covering about 425,000 retirees and paying about 1 percent of elderly nursing home costs.[10] In 1986, annual premiums for policies issued at age 65 and continued thereafter normally were in the $200 to $800 range, depending on the level of coverage provided.[11] Apart from Medicare, Medicaid, and private insurance, the elderly and their families pay for remaining nursing home costs directly out of their own resources. These direct payments cover about half of all elderly nursing home costs.[12]

8 Joseph C. Isaacs and Stephanie Tames, *Long-Term Care: In Search of National Policy* (Washington, D.C.: National Health Council, 1986), p. 8.

9 Task Force on Long-Term Health Care Policies, *op. cit.*, p. 19.

10 *Ibid.*, p. 12, 23; GAO, *Long-Term Care Insurance*, *op. cit.*, p. 10.

11 GAO, *Long-Term Care Insurance*, *op. cit.*, pp. 26-27.

12 Task Force on Long-Term Health Care Policies, *op. cit.*, pp. 11, 69.

Providing for Those in Need

In keeping with the admirable traditional American belief that society should help those in need, the government should pay for the essential long-term care expenses of those who do not have the resources to meet these costs, or who cannot pay for them without great hardship. This will guarantee once and for all that all Americans who need long-term care will be able to obtain it.

This assistance should be provided through a new program, perhaps called Long-Term Care Assistance, separate from Medicaid and designed specifically to meet long-term care needs. This new program should take the provisions for long-term care assistance out of Medicaid, allowing Medicaid to focus exclusively on medical needs. Following the principles of federalism used by Medicaid and most other assistance programs, the new program should be a joint federal-state enterprise. This split-level feature would enable states and local communities to control the new program and structure it to meet local needs and preferences. The federal share of the program should be financed out of general revenues, and the states should finance their share as each prefers.

The new program would address the care of elderly couples, when one spouse entered a nursing home and the other faced penury to meet the eligibility test for Medicaid. The non-institutionalized spouse would be allowed to retain 50 percent of family income, up to $20,000 per year, besides the current allowable income level of about $4,250 under Medicaid rules,and still retain eligibility for the new program. Similarly, the spouse could keep 50 percent of additional assets, up to $20,000, besides the current Medicaid limit of $2,850.

This expansion of benefits could increase government spending for nursing home assistance by $1 billion to $2 billion dollars per year, though an estimate of precisely how much is not currently available. The total increase should be reasonable, however, since only 12 percent of elderly nursing home residents have spouses. Because this increase in cost would be modest, the government could and should finance it out of general revenues without any tax increase.

PRESERVING THE ESTATE

With the government providing nursing home care assistance to those elderly Americans who would otherwise face hardship, the remaining issue concerns the situation of those elderly Americans who do have substantial resources to pay for nursing home care, directly or through insurance. The issue here is not access to needed care, which is assured, but how to protect their assets from being ravaged by high nursing home costs.

This is not really a health policy issue, but an estate planning issue. Such estate planning concerns clearly should be addressed through the private sector with insurance and other financial mechanisms, not with government assistance at the expense of general taxpayers. And because these Americans do have resources, it is reasonable to expect them to use some of their funds to pay for private insurance to protect the rest of their savings.

The Single Retiree

Some 88 percent of elderly nursing home residents do not have a living spouse. What are the resources available to such single retirees?

1) Income: The median income for elderly single retirees is about $8,000 per year,[13] coming primarily from Social Security, pensions, and returns on savings. Since the single retiree need not support a spouse, virtually all of this income is available to meet nursing home expenses.

2) Home Equity: About three-fourths of the elderly own their own homes with a median equity of approximately $60,000.[14] A single elderly person confined to a nursing home, no longer able to take care of himself, does not require a separate residence. Consequently, his home equity is available to help finance long-term nursing home expenses. (Under the proposed new Long-Term Care Assistance program, home equity would still be excluded in determining eligibility for government assistance, so even single elderly people would not be required to use their home equity before receiving government aid.)

3) Savings: The typical retiree has savings. On average, these savings are more substantial than those of younger Americans.[15] The single retiree with no spouse can use such accumulated savings to finance nursing home expenses.

A high proportion of single elderly nursing home residents, therefore, do have substantial resources to pay for their care, and they should rely on those funds before the taxpayers are asked to bear the expense. It is not too much to ask those who can to contribute $10,000 to $20,000 to their own nursing home care, particularly when caused by advanced age and disability, since unfortunately they cannot personally use those funds for other things. This level of contribution, in fact, would cover most nursing home stays, as 52 percent of those who enter a nursing home stay less than 90 days, and 75 percent stay less than a year.

Some proponents of government funding of long-term care expenses counter that not providing government assistance to those elderly persons with substantial resources would lead to their "impoverishment." Yet it is hard to see how the notion of impoverishment applies to a single elderly person confined to a nursing home, whose personal needs and care are provided by the institution.

Elderly Couples

The real need for government assistance to avoid depletion of funds caused by nursing home expenses occurs in the case of elderly couples, where the noninstitutionalized spouse

---

13 U.S. Bureau of the Census, *Current Population Report*, Series p-60, No. 157, Table 6.
14 The median home equity for persons 65 and over in 1984 was $46,200. U.S. Bureau of the Census, *Household Wealth and Asset Ownership* (Washington, D.C.: U.S. Government Printing Office, 1986), Table 5. Today, four years later, this figure has likely grown to around $60,000, given housing value appreciation.
15 U.S. Bureau of the Census, *Household Wealth and Asset Ownership, op. cit.*, Tables 3 and 5.

may well become impoverished when the funds on which he or she is relying for continuing support must be used to pay the nursing home costs of his or her spouse. That is why expanded government assistance for such elderly couples is recommended under the proposed new Long-Term Care Assistance program. But there is no need for a major government program for single retirees with substantial resources, who make up most of the nursing home population.

This does not mean that such single retirees do not need to protect their substantial savings and resources from high nursing home costs. But preserving substantial estates is not a proper function of government aid financed at the expense of the general taxpayer. Rather, it is a function that can and should be served by the private sector through insurance or other mechanisms.

Affording Protection. A recent Department of Health and Human Services (HHS) study finds that in less than 20 years about 60 percent of single elderly individuals will be able to spend less than 5 percent of their income to purchase insurance protecting against high nursing home expenses.[16] But the common assumption that this is a cost to be financed out of income misses the real point. Since the goal here is mostly to preserve a substantial accumulation of resources, such insurance can and should be financed by a portion of the accumulated savings, thereby protecting the rest. Since it is a problem for individuals who have substantial resources and the issue is how to protect such resources, it must not be implied that these individuals cannot afford such insurance.

Elderly couples earning more than $20,000 per year and having more than $20,000 in resources also could afford such protection. Expanded government assistance under a Long-Term Care Assistance program has been recommended for those who fall below this threshold. Interestingly, the HHS study projects that by 2005 some 93 percent of elderly couples, too, would be able to finance long-term care insurance with less than 5 percent of their income.

HOME HEALTH CARE

Only 29 percent of the elderly who need long-term care assistance receive such care in nursing homes. About three-fourths of the remainder are cared for entirely by their spouses, children, other relatives, or friends on an informal, unpaid basis.[17] About 21 percent of those outside nursing homes are cared for by a combination of unpaid family and friends and paid professionals.[18] Only 5 percent rely exclusively on paid home health services.[19]

---

16 ICF, Inc. *Private Financing of Long-Term Care: Current Methods and Resources*, prepared for the U.S. Department of Health and Human Services, Assistant Secretary for Planning and Evaluation (Washington, D.C., January 1985).
17 Robert Maxwell, Statement of the American Association of Retired Persons on Long-Term Care Financing, before the Senate Finance Committee, Subcommittee on Health, Washington, D.C., June 12, 1987, p. 1.
18 *Ibid.*
19 *Ibid.*

Not only is home care preferred by most Americans, but it is reasonable for family members to shoulder this responsibility if they have the means to do so. Such obligations adhere to traditional American concepts of family and community responsibility. Other Americans should not be expected to provide funding, through tax dollars, so that adult children or other family members can avoid the obligation of caring for elderly relatives by placing them in nursing homes at public expense.

Maids and Cooks. In some circumstances, public assistance for care in the home is justified. But the use of public funds in a family home is difficult to regulate. Such public assistance quite easily can turn into a boondoggle unless it is carefully targeted. Elderly Americans with only slight impairment, or spouses and adult children who are caring for disabled retirees, are not entitled to personal maids and cooks at public expense, euphemistically called "home health care."

On the other hand, Medicare, as it does outside the home,[20] should cover true medical services provided in the home for persons who cannot leave the home. Elderly Americans eligible for nursing home assistance under the proposed new program should be eligible for home health care assistance if institutionalization in a nursing home would be necessary without such services, and such care in the home would not be more expensive than nursing home care. When the elderly person is living with a nondisabled spouse or adult children, however, such taxpayer financing should not cover personal services such as household cleaning, cooking, feeding, dressing, and bathing that can be provided by family members.

This framework would maintain for home health care the same principle as discussed for nursing home care — the government should provide for those who have legitimate needs and do not have the resources to meet those needs. But retirees who have substantial resources should not look to the taxpayers to pay their bills.

Available Savings. A disabled parent commonly lives in the home of an adult child and receives care from the family. Providing such care is certainly a time consuming burden, and the illness or infirmity of the parent is emotionally difficult for family members. But substantial financial resources often are available to the family to assist with such care. Much of the elderly person's income, for instance, could be used by the family, which is providing for all of the parent's needs. As noted, the median income for single elderly Americans is about $8,000 per year. And if the elderly parent is living in the adult child's home, the equity in the parent's former home also is available to the family, and the median home equity for persons 65 and over is around $60,000. Other savings of the elderly parent might be available as well.

These resources typically more than compensate for the costs of food, clothing, and shelter within the family's home for the elderly parent. Medicare helps with true medical expenses in the home, and private insurance covering medical services for the elderly is broadly available and heavily utilized. Given this assistance and the resources of many of the

---

20 Those who can leave the home should have their medical services provided in doctor's offices and clinics just as other people do.

elderly, some family expenditures for professional home health care would not be an excessive burden.

For lower-income families, the government could provide assistance by allowing a dependent elderly parent in the adult child's home to qualify the family for the earned income tax credit. This credit, now available to families with young dependent children, provides a refundable amount each year equal to 14 percent of income. The full credit is allowed for incomes up to about $6,000 and then is slowly phased out as income rises to $18,000.

Providing care for an elderly parent may be more difficult for a couple when both husband and wife work. But these two-earner couples usually have substantially above-average incomes and should not be looking to the taxpayers to finance their family responsibilities. If these more affluent couples need to hire outside professional help to assist with care of a disabled parent, they or the parent should pay for it themselves. To the extent that the couple needs outside help, it would be fairer to others for this to be provided through prudent insurance protection.

THE CASE AGAINST FEDERAL LONG-TERM CARE

Some propose that the government pay for the nursing home and home health care expenses of every American, even millionaires, through a universal social insurance program financed by increased payroll tax rates and possibly other tax increases. The American Association of Retired Persons (AARP) is leading a nationwide campaign on behalf of such a program.

Exorbitant Costs

This social insurance program would be enormously costly. Total nursing home expenses in the U.S. this year will be close to $50 billion.[21] Even if the program provided for some substantial contributions to expenses out of beneficiary income, the government's initial cost likely would be over $30 billion. Total expenditures on home health care this year will be well over $10 billion.[22]

Even these figures are surely low for they assume no change in the demand for care resulting from such a program. If the government started paying nursing home expenses across the board, the number of Americans entering nursing homes almost surely would soar, sharply increasing the program's cost. It must be remembered that only 29 percent of those needing long-term care are in nursing homes. In addition, only 26 percent of the disabled elderly in care outside nursing homes receive some professional paid-for home health care services. With the government paying the expenses, many more would use such ser-

21 GAO, *Long-Term Care Insurance*, *op. cit.*, p. 10.
22 Total expenditures for professional home health care were $9 billion in 1985. Task Force on Long-Term Health Care Policies, *op. cit.*, p. 19.

vices. While advocates of home health care benefits argue that such benefits could save government funds by avoiding expensive nursing home care, studies show that such savings are unlikely to result. A recent study by the Institute for Research on Poverty at the University of Wisconsin, conducted for the National Center for Health Services Research, concludes that government home health care benefits result in little if any reduction in government nursing home expenses, yet lead to increases in government home health expenditures for those who would remain at home even without the expanded benefits.[23]

With the increased demand for nursing home and home health care brought about by such a universal program, prices for such care also would soar. This is especially true since in many states the supply of new nursing home space is heavily restricted by regulation.

Huge New Entitlement. The combination of increased utilization and rising prices could more than double the costs of the proposed universal program. Total costs of such a program could in fact be close to today's $80 billion Medicare expenditure, which is almost 10 percent of the entire federal budget. Creating such a huge new entitlement for the elderly makes little sense, given the size of federal budget deficits and the pending retirement of the baby boom generation. Medicare itself is projected to run deeply into the red, requiring payroll tax-rate increases of as much as 400 percent by the time today's young workers retire, according to the latest official government reports.[24] By then, the Medicare payroll tax rate alone could be higher than for all of Social Security today.

Payroll tax rates already are far too high and need to be cut, not increased. Payroll taxes cost jobs. A study earlier this year by the Institute for Research on the Economics of Taxation concludes that the payroll tax rate increases in 1988 and 1990, scheduled under current law, will destroy half a million jobs.[25] A tax increase of the magnitude needed to finance free long-term care benefits for everyone would cause massive job losses and could stall the economy. Revenues would then fall short of expectations, resulting in a massive increase in the deficit.

Helping the Rich Become Richer

Expanding benefits beyond those in need, to provide free nursing home care assistance to everyone, would be highly regressive. It would mean taxing all working people to provide benefits to Americans with substantial resources. The main effect of such a policy would be to increase the estates that the wealthy can leave to their children. The true beneficiaries of such expanded benefits would be a relatively small number of Americans, mostly between 40 and 60 years old and in the middle to upper income group. This relatively small group of high-income beneficiaries would receive large inheritance windfalls made possible by taxing the average taxpayer.

---

23 Peter Kemper, Robert Applebaum and Margaret Harrigan, *A Systematic Comparison of Community Care Demonstrations* (Institute for Research on Poverty, June 1987).
24 *1987 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund* (Washington, D.C.: March 30, 1987).
25 Aldona Robbins and Gary Robbins, "Effects of the 1988 and 1990 Social Security Tax Increases," *Economic Report* No. 39 (Washington, D.C.: Institute for Research on the Economics of Taxation, February 3, 1988).

ENCOURAGING AMERICANS TO PLAN FOR LONG-TERM CARE

A new government program to help finance long-term care expenses for those Americans who do not have the resources to meet such costs has already been recommended. Allowing the adult children of an elderly person who needs home care to qualify for the earned income tax credit also would assist families of moderate incomes. For better-off Americans, the government should promote the expansion of long-term care insurance and other private financing mechanisms to protect their assets against destructive long-term care costs. In addition, the government should encourage workers to accumulate special savings to finance long-term care insurance in retirement. The federal government could:

1) Develop better data on long-term care needs.

A major concern of private insurers is the lack of solid data on which to base long-term care insurance policies. More data on the incidence, duration, and costs of long-term care is needed. The federal government should consult with private insurers and take the lead in developing a data base. This would enable the private market to grow more rapidly.

2) Extend to long-term insurance the incentives that apply to life insurance.

The federal government should extend the same tax policies to long-term care insurance that it applies to life insurance. The income earned on investment reserves for long-term care policies should not be taxed, just as life insurance reserves are not taxed. Similarly, the benefits paid by long-term care policies should be tax exempt, as life insurance benefits are. The government should not be taking resources out of the funds of workers who are trying to set aside savings for long-term care, just as the government restrains itself from dipping into life insurance proceeds intended to protect widows and children.

3) Make long-term care costs and premiums eligible for the medical expense tax deduction.

High medical bills and health insurance premiums can be deducted, in part, from taxable income. Expenses for long-term care and premiums for long-term care insurance should be eligible for similar medical expense deduction.

4) Allow employers to include long-term care insurance in the tax-free "cafeteria" benefit plans offered to their workers.

Federal tax law should be changed to allow employers to offer long-term care insurance as one of the choices under "cafeteria" employee benefit plans. These are fringe benefit plans in which each worker is allowed to choose a package of tax-free employee benefits from a range of options.

5) Encourage employers to provide retirement nursing home care with the same tax policy that applies to pensions.

The Deficit Reduction Act of 1983 bars employers from deducting most contributions to reserve funds for retirement medical benefits including long-term care coverage; it can even require tax on investment returns on such reserve funds. Contributions and returns to pension funds, however, have remained tax-free. Without a deduction for contributions and the tax exemption for reserve earnings, private employers are far less inclined to offer such retirement benefits. This 1983 tax provision should be reversed.

6) Amend corporate and individual pension plan rules to permit the purchase of long-term insurance.

Workers and retirees should be allowed to use vested funds in pension plans, 401(k) plans, Individual Retirement Accounts (IRAs), and other retirement plans to make tax-free purchases of long-term care insurance. Employers should be allowed to use excess reserves in overfunded pension plans to provide long-term care health insurance benefits for their employees in retirement.

7) Stimulate the conversion of life insurance policies into long-term care protection.

The government could encourage insurers to offer life insurance policies that can be converted, completely or partially, into coverage for long-term care in retirement. Life insurance needed to protect a family's earning capacity during working years generally is not needed to the same extent in retirement or when children reach adulthood. As retirement begins, death benefits under the policy could be reduced while benefits payable for long-term care could begin and be increased.

8) Encourage home equity conversion.

The government should encourage insurers and other financial institutions to make it easier for the elderly to use the equity built up in their homes to finance long-term care insurance or services. Under a "reverse annuity mortgage," permitted now in several states, the elderly homeowner receives a payment each month in return for a mortgage on the home normally up to 80 percent of the home's value. The mortgage is then paid off when the home is sold. Under a "sale leaseback" arrangement, an alternative to the reverse annuity mortgage, the elderly homeowner actually sells his home but acquires an unlimited right to rent back the property for life at a predetermined rate. Through these mechanisms, the elderly could use their home equity for nursing home care insurance and expenses while retaining occupancy of the home.

9) Create health care savings accounts.

Congress could adopt a comprehensive program allowing workers and employers to put aside money during their working years for retirement medical and long-term care insurance and services. A proposal to do this (H.R. 955) has been introduced in Congress by Representative French Slaughter, the Virginia Republican, and others.

CONCLUSION

These measures would mobilize existing private resources to finance long-term care, increasing the ability of elderly Americans to meet such costs themselves and thereby reducing the pressure for costly and wasteful government programs.

To be sure, the government should pay for the essential long-term care expenses of those who do not have the resources to meet the cost, or could not meet it without great hardship. A new program, Long-Term Care Assistance, has been proposed to meet this need. This program would remove the current provisions for long-term care assistance from Medicaid and expand them to provide additional aid to elderly couples, who are not well served by the current system. But taxpayers should not have to finance long-term care for every retiree, regardless of wealth or income. Such a government commitment would require massive tax increases that would slow economic growth and destroy jobs.

If the government picked up the bills for everyone, the number of the elderly entering nursing homes and the price of care would soar dramatically, further increasing program costs. Moreover, free nursing home benefits to everyone would be highly regressive, since working people would be taxed to provide benefits to shield the assets of the wealthy.

Promoting Insurance and Savings. The proper policy for protecting Americans with accumulated assets is not providing them with benefits courtesy of the taxpayer, but encouraging them to protect their resources through insurance. The government thus should take steps to promote the development of private long-term care insurance to enable the elderly to obtain such protection more easily. It also should adopt policies to enable workers to accumulate savings during their careers that would be available to finance long-term care in retirement through private insurance or other means. Encouraging such prudent protection through private insurance, and not as a new entitlement program for the affluent, is the proper way to deal with the long-term care concerns of America's elderly.