



Sunday, May 22, 2005

Nursing home system in need of reform

By Stephen Moses

In 2003, The Kansas Senate President's Task Force on Medicaid Reform issued a Final Report correctly identifying the state's nursing home system as an area ripe for reform. Unfortunately, two years later the legislative session closes with only minor changes being implemented. The result is a failure for Kansas to be able to provide needy citizens with adequate care. The challenge going forward is to craft reforms that address the underlying flaws in the system and actually improve outcomes.

The truth is that there is a coming crisis for taxpayers in Kansas. For some time, the cost of long-term care has gradually been shifted from private payers to Medicare and Medicaid. Fifteen years ago these programs paid less than half of all nursing home costs. Today, they pay over sixty percent. The consequences of this shift are staggering. Indeed, the situation is such that Kansans must act swiftly to avoid bankrupting the state.

As Medicare and Medicaid assume more of the nation's nursing home costs, the consumer's liability for nursing home costs diminishes. The result is that consumers are less eager to buy long-term care insurance. Prospective consumers are likely to believe that the government will pick up the bulk of the nursing home costs by the time such services are needed, if they consider the issue at all.

In the face of rapidly escalating costs, state Medicaid officials are cutting reimbursement rates, often to less than the nursing home's cost of providing the care. Now, many nursing facilities face bankruptcy.

Nursing homes are not the only providers to suffer under the current economics of long-term health care. Many people who could afford assisted living facilities by spending down their wealth, for instance, instead choose to take advantage of Medicaid's nursing home benefits. Such benefits are easy to obtain without spending down assets significantly.

Currently, Medicaid exempts one home, one business, one automobile - all of unlimited value - plus many other "non-countable assets." Besides these standard shelters, there are other sophisticated techniques being marketed by Medicaid planners. Assets thus rarely interfere with Medicaid nursing home eligibility.

These perverse incentives cause most people to avoid long-term care insurance premiums and ignore the risk as long as they can and hope that Medicare and Medicaid will pick up the bill. Rational consumer behavior suggests buying insurance to avoid a perceived financial risk. While it is standard for people to buy insurance to protect themselves against losses of health, auto and life, few choose to plan for the costs of long-term care.

While acting this way is rational under the present circumstances, the incentives that lead to such behavior arise from poor public policy. The all-too easy access to Medicaid benefits and the resulting massive costs are destroying quality within the industry. In contrast, being able to pay privately is the key to accessing quality care in the private marketplace at the most appropriate level.

The reality is that - like other states - Kansas is discovering that the current system of providing long-term care is broken. For the sake of those within the system, those who will likely enter the system, and taxpayers supporting the system, reform is essential. The sooner Kansans cease to send good money after bad, the better.

* Stephen Moses is President of The Center for Long Term Health Care Financing in Washington and an adjunct scholar of The Flint Hills Center for Public Policy in Kansas.