

## HOUSE OF REPRESENTATIVES STAFF ANALYSIS

**BILL #:** HB 371 CS

Long-term Care Coverage

**SPONSOR(S):** Legg

**TIED BILLS:**

**IDEN./SIM. BILLS:**

SB 1208

---

REFERENCE	ACTION	ANALYST	STAFF
<b>DIRECTOR</b>			
1) <u>Elder &amp; Long-Term Care Committee</u>	<u>7 Y, 0 N</u>	<u>Walsh</u>	<u>Liem</u>
2) <u>Insurance Committee</u>	<u>12 Y, 0 N, w/CS</u>	<u>Sayler</u>	<u>Cooper</u>
3) <u>Health Care Appropriations Committee</u>	<u></u>	<u></u>	<u></u>
4) <u>Health &amp; Families Council</u>	<u></u>	<u></u>	<u></u>
5) <u></u>	<u></u>	<u></u>	<u></u>

---

### SUMMARY ANALYSIS

The aim of a long-term care partnership program is to foster a public/private alliance between state governments and insurance companies with the goal of reducing state expenditures for long-term care by encouraging individual purchase of long-term care insurance. Four states (New York, California, Connecticut and Indiana) worked with private insurers to develop long-term care products that provided quality coverage at a more affordable price than otherwise available, and that provided the purchaser special Medicaid eligibility standards once their private benefits were exhausted. Their programs were grandfathered-in when the Social Security Act was amended in 1993. Depending upon the particular partnership program, a person who purchased a designated amount of long-term care from a participating insurer in the partnership program would receive an equivalent amount of asset protection from Medicaid attachment.

Currently, Florida does not have a long-term care partnership program. Such a partnership program in Florida is not likely to gain momentum until Congress amends the Social Security Act to permit the creation of such partnership programs that provide protection of assets from Medicaid attachment. House Memorial 377 is a proposed legislative memorial that, upon passing, is to be sent to Congress urging a change in the Social Security Act to permit the creation of long-term care partnership programs.

This bill directs the Agency for Health Care Administration (AHCA) to establish the Florida Long-term Care Partnership Program to provide incentives for individuals to purchase long-term care insurance.

A person who participates in the partnership is able to qualify for coverage of the costs long-term care under Medicaid without first being required to substantially exhaust or "spend-down" his or her assets because the amount of countable assets for purposes of determining eligibility for Medicaid would be reduced by \$1 for each \$1 of benefits paid by an individual's long-term care partnership program policy.

Prior to the next legislative session, AHCA is required to develop a plan for implementation of the Florida Long-Term Care Partnership Program in the form of recommended legislation. The bill would take effect upon becoming law, except that the amendments relating to Medicaid eligibility are effective contingent upon action by Congress to amend section 1917(b)(1)(c) of the federal Social Security Act.

This bill amends s. 409.905, Florida Statutes, and creates s. 409.9102, Florida Statutes, and one undesignated section of the Florida Statutes.

The long-term fiscal impact of this bill on the private and public sector is not known at this time. There is an indeterminate fiscal impact on AHCA since it is directed to establish this program.

**This document does not reflect the intent or official position of the bill sponsor or House of Representatives.**

**STORAGE NAME:** h0371c.IN.doc

**DATE:** 4/6/2005

# FULL ANALYSIS

## I. SUBSTANTIVE ANALYSIS

### A. HOUSE PRINCIPLES ANALYSIS:

**Provide Limited Government** – Floridian’s participation in a long-term care insurance partnership program could reduce Medicaid spending on long-term nursing facility services that the state currently provides for those without long-term care insurance coverage.

**Safeguard Individual Liberty** – As more elderly Floridians are able to purchase long-term care insurance through this partnership program, they will be able to preserve more their hard-earned personal assets and access Medicaid once their private long-term care is exhausted. As a result, more Floridians should be able to maintain a higher-standard of living in the final years of their life than Medicaid would normally allow. Once they die, Medicaid would not be able to attach these protected assets.

**Promote Personal Responsibility** – The asset protection that these partnership programs provide incentives to Floridians to purchase them. As more plans are purchased, this could reduce reliance on Medicaid for long-term care and save the state money.

**Empower Families** – Individuals (with income levels above that which Medicaid provides long-term care, but below that which make private long-term care insurance affordable) would be enabled to purchase long-term care from participating providers in this partnership program. Participation in this program will benefit the state as less Medicaid funds would need to be expended. It will also benefit families as there would be no need to spend hard-earned personal assets down to the level where Medicaid would provide assistance. As a result, more assets would likely remain for the surviving spouse or family members. Thus, families will be able to purchase private long-term care insurance from a partnership program while receiving some asset protection, if they spend through their long-term care policy limits and have to rely upon Medicaid.

### B. EFFECT OF PROPOSED CHANGES:

#### Background<sup>1</sup>

#### Long-term Care

In 1988, the Robert Wood Johnson Foundation sponsored the Long-Term Care Partnership Program (Partnership) as a demonstration project.<sup>2</sup> Its aim was to foster a public/private alliance between state governments and insurance companies with the goal of reducing state expenditures for long-term care by encouraging individual purchase of long-term care insurance. Four states (New York, California, Connecticut and Indiana) worked with private insurers to develop long-term care products that provided quality coverage at a more affordable price than otherwise available, and that provided the purchaser special Medicaid eligibility standards once their private benefits were exhausted.

Long-term care (LTC) refers to a broad range of supportive medical, personal and social services needed by people who are unable to meet their basic living needs for an extended period of time. This may be caused by accident, illness or frailty. Such conditions include the inability to move about, dress, bathe, eat, use a toilet, medicate and avoid incontinence. Also, care may be needed to help the disabled with household cleaning, preparing meals, shopping, paying bills, visiting the doctor, answering the phone and taking medications. Additional long-term care disabilities are due to cognitive

<sup>1</sup> Background is substantially similar to the Senate Bill 1208 CS analysis, April 1, 2005.

<sup>2</sup> See, generally, University of Maryland Center on Aging, Partnership for Long Term Care, at [www.hhp.umd.edu/AGING/PLTC](http://www.hhp.umd.edu/AGING/PLTC); Ahlstrom, Alexis *et al.*, *The Long Term Care Partnership Program: Issues and Options*, The Brookings Institution, Washington, D.C., December 2004.

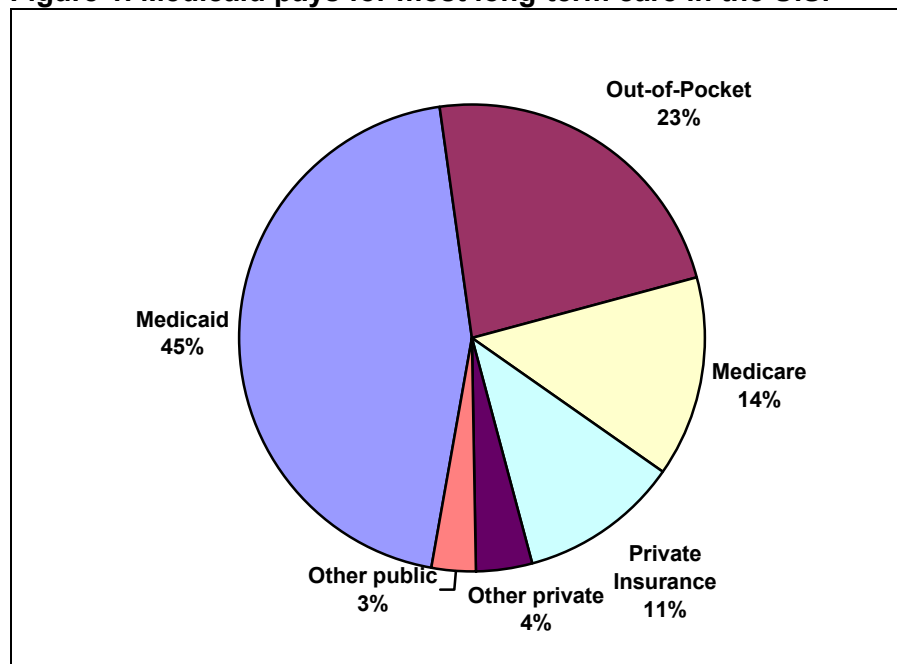
impairment from stroke, depression, dementia, Alzheimer's disease, Parkinson's disease and other medical conditions that affect the brain.

It is estimated that, in 2005, approximately nine million men and women in the United States over the age of 65 will need LTC. By 2020, 12 million older Americans will need LTC. Most will be cared for at home (family and friends are the sole caregivers for 70 percent of the elderly). A study by the U.S. Department of Health and Human Services says that people who reach age 65 will likely have a 40 percent chance of entering a nursing home. About 10 percent of the people who enter a nursing home will stay there five years or more.<sup>3</sup>

### Long-term Care Financing

Medicaid is now the primary payer of LTC services in the United States (see figure 1) and as a result, state and federal governments bear a tremendous financial burden for these services. Florida is particularly affected as it has the highest proportion of persons aged 65 to 84 of any state in the nation, and this population is expected to grow 130 percent by 2025. In FY 2002-03, Florida Medicaid spent \$3.2 billion (or 28 percent of the Medicaid budget) on four core LTC services: nursing homes; Intermediate Care Facilities for Persons with Development Disabilities; Home and Community Based Services waivers; and assistive care services.<sup>4</sup> Florida Medicaid currently pays for 66 percent of all nursing home days for the frail elderly in Florida.

**Figure 1. Medicaid pays for most long-term care in the U.S.**



Source: United State General Accounting Office. GAO-02-544T. March, 2002.

Elderly individuals often believe, mistakenly, that Medicare pays for LTC costs. As a result, many individuals often find out too late that they must spend down the majority of their assets before gaining eligibility for Medicaid services. One way to prevent this from occurring is for individuals to purchase LTC insurance. In Florida, the Office of Insurance Regulation within the Financial Services Commission is responsible for the regulation of long-term care insurance policies.<sup>5</sup>

<sup>3</sup> United States Department of Health and Human Services, Centers for Medicare and Medicaid Services. March 2005.

<sup>4</sup> Agency for Health Care Administration. *Medicaid Long Term Care: Overview and Update*. Presentation to the Senate Health and Human Services Appropriations Committee. December 15, 2004.

<sup>5</sup> Section 627.9407, F.S.

Although the LTC insurance market has grown rapidly over the past decade, LTC insurance pays for a very small share of nursing home care. According to the Health Insurance Association of America, the number of LTC insurance policies grew 21 percent between 1987 and 1997. Yet, the United States General Accounting Office reported that private LTC insurance accounted for just 11 percent of national LTC expenditures for the elderly in 2000.

The main reason for the low number of purchasers is the cost of LTC insurance policies. The average annual premium for a LTC policy for a 65-year old was \$2,273 in 2001. Almost half of the U.S. population of persons 65 years of age and older have incomes below \$21,570 (250 percent of the Federal Poverty Limit in 2002). As a result, most of these individuals would have to pay at least 10 percent of their annual income for LTC insurance.<sup>6</sup>

States have adopted three strategies to encourage younger persons to purchase private LTC insurance. First, states offer tax incentives to individuals or employers to purchase private LTC insurance. Tax deductions tend to be small and most likely won't constitute a significant savings for individuals or to the system. Second, many states offer or are in the process of offering LTC insurance to their employees, retirees, and on occasion parents and parents-in-law of employees. In these cases, employees pay all of the cost but states may offer fringe benefits. Finally, states are developing public/private partnerships to encourage people to purchase LTC insurance. Under these partnerships, people who purchase LTC insurance can keep more assets and still become eligible for Medicaid.

### **Long-Term Care Partnership Programs**

The interests of the states in exploring ways to make private LTC insurance more appealing and affordable to the public encouraged the Robert Wood Johnson Foundation (RWJF) to launch an initiative that provided planning grants to selected states that demonstrated an interest in this issue.<sup>7</sup> California, Connecticut, Indiana, Massachusetts, New Jersey, New York, Oregon, and Wisconsin received support to define and develop a public-private insurance partnership to pay for LTC, although only four states ultimately implemented their public-private partnerships (California-1994, Connecticut-1992, Indiana-1993, and New York-1993).

With the help of the National Program Office, based at the University of Maryland Center on Aging, the states participating in the planning phase developed strategies to encourage the purchase of private insurance. The states recognized that to broaden the market for LTC insurance it was important both to decrease the cost of the policies and to increase their quality. This is a special challenge, since increasing the quality of insurance policies generally increases the premium, which cuts down on the market. In the end, the key incentive to making the system work was a unique approach that allows people who purchase a state-certified LTC insurance "partnership" policy to get help from Medicaid without having to exhaust their assets.

Normally, when a LTC insurance policy runs out, policyholders risk having to spend virtually all their savings before qualifying for Medicaid. In contrast, when a partnership policy is exhausted, the policyholder is eligible for coverage under Medicaid without having to deplete previous savings. The details of the models differed from state to state. The most significant difference was between New York and the three other states.

In New York, partnership policies are required to pay three years of nursing home care, six years of home care, or some combination, after which all remaining assets are protected, known as the "total assets" model. A high priority of the New York approach is to offer middle- and upper-class seniors a viable alternative to giving away their assets and impoverishing themselves in order to qualify for Medicaid.

---

<sup>6</sup> Kassner, Enid. "Private Long-Term Care Insurance: The Medicaid Interaction." AARP Issue Brief. May 2004

<sup>7</sup> Meiners, Mark, Hunter McKay, and Kevin Mahoney. "Partnership Insurance: An Innovation to Meet Long-term Care Financing Needs in an Era of Federal Minimalism." *Journal of Aging & Social Policy*. 2002. Vol. 14, No. 3/4, pp. 75-93.

The underlying logic of this total-assets model is that the period of insurance is equal to or exceeds the time during which a person would be penalized by having to pay for long-term care if he or she had transferred assets in order to become eligible for Medicaid. When the program in New York began, this period was 30 months. Securing a three-year commitment to pay nursing home costs with private insurance would save the state money as compared to when someone is divested of his or her assets to receive Medicaid's assistance.

California, Connecticut, and Indiana adopted a "dollar-for-dollar" model. In addition to serving as an alternative to transferring, it allows people to buy a policy that protects a specified amount of their assets. An individual with \$50,000 in assets might buy \$50,000 in insurance protection while another individual with \$150,000 in assets might buy \$150,000 in insurance protection. Payments for LTC by the insurance company are considered the equivalent of spending assets for the purpose of establishing Medicaid eligibility. Thus, a person who purchased a \$75,000 policy would be able to keep \$75,000 when he or she became eligible for Medicaid.

In later years, Indiana revised its program to include a hybrid approach intended to get the best of both asset-protection strategies. Up to a set amount of coverage (the dollar equivalent of four years in the average Indiana nursing home) the purchaser is eligible for dollar-for-dollar asset protection while getting Medicaid benefits. But those who buy a policy covering more than this amount will receive total-asset protection along with help from Medicaid once they use up their insurance.

As of December 31, 2003, a total of 180,531 partnership policies had been purchased and 148,405 of them were still in force. To put this into context, the partnership policies in force represent 1.5 to 5.7 percent of the elderly populations in these states. This is less than the nationwide rate of purchasing LTC insurance; according to a Health Insurance Association of America report, about 5.8 million LTC insurance policies were in force in 2000, representing 16.6 percent of the nation's elderly population.<sup>8</sup>

Of the partnership policyholders, 2,057 have received benefits from their LTC policies and 89 policyholders have exhausted their benefits and accessed Medicaid (or have Medicaid applications pending). The partnership literature does not contain information on whether the 89 people using Medicaid would have likely spent down to Medicaid absent participation in the program. However, the data indicate that those participants who have needed Medicaid have made substantial contributions to their own care prior to accessing Medicaid. They have bought policies worth over \$2.8 million, and spent down the rest of their assets before they were eligible for Medicaid services. Additional participants have purchased policies worth over \$7 million (thus protecting at least the same amount of assets), and never accessed Medicaid (e.g., because they died before qualifying).

### **Barriers to Implementing Long-Term Care Partnership Programs**

While every RWJF Partnership was enacted as a result of unanimous votes in the state legislatures, the opposition at the federal level resulted in legislation that grandfathered the four RWJF State Partnerships, but put restrictions on further replication. The Omnibus Budget Reconciliation Act of 1993 (OBRA) requires that any states implementing Partnership Programs after May 14, 1993, must recover assets from the estates of all persons receiving services under Medicaid. The result of this language is that, for replication states, the asset-protection component of the partnership is still in effect but only while the insured is alive. After the policyholder dies, those states must recover what Medicaid spent from the estate, including protected assets.

This provision in OBRA has had the effect of stifling interest in replicating the LTC partnership programs. Prior to passage of this legislation, interest in the partnership program had grown well

---

<sup>8</sup> Ahlstrom, Alexis, Emily Clements, and Anne Tumlinson. "The Long-Term Care Partnership Program: Issues and Options." George Washington University School of Public Health and Health Services. 2004.

beyond the four states funded by the Robert Wood Johnson Foundation. Sixteen states have passed legislation to implement a partnership when the OBRA restrictions are withdrawn or waived for the partnership. In 2005, the idea of expanding the LTC Partnership Program re-emerged at the national level. President Bush's proposed 2006 Budget includes a proposal to eliminate this disincentive on new programs.<sup>9</sup> If Congress acts to lift the disincentives on new partnerships, these states could move forward immediately. In addition, partnership and non-partnership states are in the process of designing a national partnership program, with reciprocity agreements among all participating states. This is intended to increase the portability of the partnership program. The National Governors Association has also made expanding the partnership program a priority.

### **Effect of Proposed Changes**

This bill requires the Agency for Health Care Administration do the following: to establish the Florida Long-Term Care Partnership Program; to establish standards for long-term care insurance policies for designation as approved long-term care partnership program policies in consultation with the Office of Insurance Regulation; to provide a mechanism for a person to qualify for Medicaid without first being required to substantially exhaust his or her resources; and to require AHCA to provide and approve long-term care partnership plan information distributed to individuals through insurance companies offering approved partnership policies. The Office of Insurance Regulation would retain regulatory authority over long-term care policy forms and rates.

This bill provides an additional eligibility standard for nursing and rehabilitative services for individuals with approved long-term care partnership program policies. If an individual has exhausted the benefits the policy, then the total countable assets for determining Medicaid long-term care eligibility must be reduced dollar for each dollar paid out under the policy. This provision would allow a person to exempt assets in an amount equal to the benefits paid by a long-term care insurance policy. For example, if a Floridian purchases \$250,000 in LTC coverage from an approved partnership policy and if that individual exhausts the policy, then the eligibility standards apply. If the policy has paid out \$250,000 to provide for the LTC coverage of that individual, then that \$250,000 is not counted against that individual when determining his or her Medicaid long-term care eligibility. That is \$250,000 in assets that need not be spent before qualifying for Medicaid LTC. This \$250,000 will be preserved for family members once that individual passes away and cannot be attached by Medicaid.

This bill requires AHCA to develop a plan for implementing plan in the form of legislation for Florida's Partnership Program by next legislative session.

### **C. SECTION DIRECTORY**

**Section 1** - Amends s. 409.905(8), F.S., to provide additional eligibility standards for nursing and rehabilitative services for an individual who is a beneficiary of an approved long-term care partnership program policy.

**Section 2** - Creates s. 409.9102, F.S., to require AHCA to establish the Florida Long-Term Care Partnership Program with specified criteria.

**Section 3** - Requires AHCA to develop an implementation plan for the program in the form of legislative recommendations prior to the next legislative session in 2006.

**Section 4** - Provides that the Act will become effective upon becoming a law, except that the amendments relating to Medicaid eligibility are effective contingent upon action by Congress to amend section 1917(b)(1)(c) of the federal Social Security Act to delete the current "May 14, 1993," deadline for approval by states of long-term care partnership plans.

---

<sup>9</sup> *Major Savings and Reforms in the President's 2006 Budget*, February 11, 2005, pg. 191; available at <http://www.whitehouse.gov/omb/budget/fy2006/pdf/savings.pdf>

## II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

### A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

None.

2. Expenditures:

By encouraging personal responsibility, this bill can possibly reduce the amount of Medicaid funds being spent to provide long-term care.

The fiscal impact to AHCA is indeterminate at this time, since the bill only requires an implementation plan to be submitted to the Legislature prior to the 2006 Regular Session. Implementation of the program would be contingent upon changes to the federal Social Security Act. If the Social Security Act is amended, there could be a fiscal effect on AHCA, since staff would be needed to design and implement the program and additional staff or contract funds would be required to provide counseling to individuals in planning for long term care needs.

### B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None.

2. Expenditures:

None.

### C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

The impact will not be known until Congress amends the Social Security Act to authorize these Partnerships. However, it could possible result in an increased amount of LTC policies being purchased. As more Floridians depend upon these Partnership Program policies instead of Medicaid to provide LTC, that should allow the state to allocate its limited Medicaid resources better.

### D. FISCAL COMMENTS:

Once Congress amends the Social Security Act, then Floridians will more easily be able to provide for their long-term care without state financial assistance and state Medicaid moneys might be saved.

## III. COMMENTS

### A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

The municipal/county mandates provision in section 18 of article VII of the Florida Constitution does not appear to applicable since the bill does not appear to require counties or municipalities to take action requiring the expenditure of funds, does not appear to reduce the authority that counties or municipalities have to raise revenue in the aggregate, and does not appear to reduce the percentage of state tax shared with counties or municipalities.

2. Other:

None.

B. RULE-MAKING AUTHORITY:

None.

C. DRAFTING ISSUES OR OTHER COMMENTS:

**IV. AMENDMENTS/COMMITTEE SUBSTITUTE & COMBINED BILL CHANGES**

On April 6, 2005, the Insurance Committee adopted a strike-everything amendment. There is little substantive difference between the original version and the committee substitute. The differences relate to where the Florida Long-Term Care Partnership Program is found in statute and to clarifying OIR's oversight responsibilities with regards to this program. This analysis reflects the committee substitute.