Factors Affecting the Cost of Long-Term Services and Supports

Barbara J. Holt, PhD\(^{2}\), Aaron Tripp, MSW


Policy Implications

With current LTSS expenditures accounting for an estimated 1.3 percent of gross domestic product (GDP), the country has projected LTSS costs to range from 1.9 percent of GDP to 5.3 percent of GDP by 2060. These projections raise several questions.

1. What viable public and private long-term care financing proposals exist, and how can consensus be reached on implementing them?
2. What is an appropriate mix of financial and regulatory responsibility among the federal government, state governments, and the private sector on LTSS?
3. Will increased activity around chronic care management forestall the need for sustained LTSS?
4. How can consumer choice and preferences help drive both quality and value in LTSS delivery?
5. Can incentives be identified that will effectively support working adults as they plan for their future long-term care needs?

Careful consideration and working toward a successful resolution of these questions are essential to assure access to quality long-term care, to provide affordability for individuals, and to predict costs for families and payers.

Demographic Trends

An aging society is bringing with it increases in co-morbidities, with one in five Medicare beneficiaries having five or more conditions\(^3\) and greater amounts of functional limitations. Often it is the limitations in activities of daily living (ADLs) that trigger the need for LTSS services, and these tend to increase with age as shown in Table 1.

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Population</th>
<th>ADL Limitations</th>
<th>1 ADL Limitation</th>
<th>2 ADL Limitations</th>
<th>3 ADL Limitations</th>
</tr>
</thead>
<tbody>
<tr>
<td>65-69 Years</td>
<td>110,531</td>
<td>72,224</td>
<td>33,298</td>
<td>21,693</td>
<td>11,606</td>
</tr>
<tr>
<td>70-84 Years</td>
<td>72,013</td>
<td>44,013</td>
<td>25,072</td>
<td>14,040</td>
<td>6,024</td>
</tr>
<tr>
<td>85+ Years</td>
<td>3,844</td>
<td>2,511</td>
<td>1,413</td>
<td>737</td>
<td>178</td>
</tr>
</tbody>
</table>

Figure 1. LTSS Total Spending in 2011, by payer Source: U.S. Census Bureau, 2012.

Financial Factors

LTSS expenditures are driven by cost increases related to technology advances, employee wages, and the underlying cost of medical supplies, pharmaceuticals, social services, and transportation. Demand for nursing aides, medical assistants, personal care aides, and home health aides will increase significantly in future decades. Meeting this need will be difficult; the industry will face either a shortage of workers or an increase in staffing costs to recruit and retain a larger pool of skilled workers. Home health aides and personal care aides, totaling 3 million in 2008, are projected to be the third and fourth fastest-growing occupations in the country between 2008 and 2018; job openings will increase by 55 percent and 46 percent, respectively.\(^4\)

A household financial factor affecting LTSS is the amount of planning accomplished earlier in life. Most Americans do not sufficiently plan for their future LTSS needs. Table 3 shows responses from a survey asking adults aged 50 years and older about their degree of preparation for dealing with health care expenditures. The percentage of individuals who had already taken steps to secure insurance or to begin saving is quite low.\(^8\)

Table 3. Plans for Dealing with Health Expenditures

<table>
<thead>
<tr>
<th>Plan to Do in the Future</th>
<th>Already Done</th>
<th>Plan to Do in the Future</th>
<th>Already Done</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buy long-term care insurance</td>
<td>12.8%</td>
<td>13.5%</td>
<td>50.5%</td>
</tr>
<tr>
<td>Have specificity for large health expenses and/or LTSS</td>
<td>6.2%</td>
<td>15.1%</td>
<td>51.9%</td>
</tr>
<tr>
<td>Sell house or use assets if needed for health bills and/or LTSS</td>
<td>2.5%</td>
<td>13.0%</td>
<td>56.2%</td>
</tr>
</tbody>
</table>

Table 2. Preference for Setting by Scenario of Need

<table>
<thead>
<tr>
<th>Setting</th>
<th>Unpaid</th>
<th>Own Home</th>
<th>Paid</th>
<th>Assisted Living</th>
<th>Nursing Home</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADL Needs</td>
<td>49.6%</td>
<td>41.5%</td>
<td>11.6%</td>
<td>1.5%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Dementia Needs</td>
<td>29.2%</td>
<td>39.4%</td>
<td>11.3%</td>
<td>17.7%</td>
<td>0.7%</td>
</tr>
</tbody>
</table>

Table 1. Limitation in ADLs, by Age Group (in thousands)

Figure 1. LTSS Total Spending in 2011, by payer Source: U.S. Census Bureau, 2012.