

STATEMENT OF CHAIRMAN GORDON H. SMITH

U.S. Senate Special Committee on Aging
“Long-Term Care Financing: Are Americans Prepared?”
March 9, 2006

Good morning, and thank you all for coming.

Today’s hearing topic, long-term care, is a subject Congress must begin to address if we are to ensure future generations of retiring Americans are able to meet their health care needs while not crippling entitlement programs like Medicare and Medicaid. I am glad we have an opportunity to discuss long-term care financing and take the first steps to answering the question “Are Americans Prepared?”

The biggest concern regarding long-term care is that it is very expensive. The Centers for Medicare and Medicaid Services estimate that national spending for long-term care was approximately \$160 billion in 2002, representing about 12 percent of all personal health care expenditures. To make matters worse, demand for long-term care is expected to increase significantly in coming decades. Today, almost two-thirds of people receiving long-term care are over age 65, with the number of people receiving care expected to double by 2030.

To put a human face on this growing problem, we hear stories every day of disabled Americans who cannot afford care turning to self impoverishment as a last resort to begin receiving Medicaid benefits. For these reasons, urgent action is needed on two fronts: First, we must strengthen Medicaid to ensure that it remains a viable safety-net for millions of needy Americans well into the future. Second, we need to encourage savings and the purchase of long-term care insurance for those who are in a position to prepare for long-term care expenses.

Why is this such a great concern? As the Baby Boomers begin retiring in increasing numbers over the coming years, our ability to pay for entitlement programs will be stretched to the limit. In addition, the Deficit Reduction Act that was enacted earlier this year included several provisions that dramatically changed eligibility standards for Medicaid, such as lengthening the look-back period for asset transfers and disqualifying individuals with substantial home equity. On a positive note, the bill created the National Clearinghouse for Long-Term Care Information and expanded the Long-Term Care Partnership Program.

For that I must commend the work of Senator Craig, who is the former Chairman of this Committee and still serves with distinction, for all his hard work to expand the Long-Term Care Partnership Program. His leadership as Chairman of this Committee was one of the primary reasons Congress expanded the Long-Term Care Partnership program.

With these greater restrictions on Medicaid eligibility we must begin to offer positive estate planning solutions to give Americans better opportunities to prepare for their long-term care needs. As with health care, the best way to be prepared for long-term care expenses is to be insured. However, insurance can be expensive, especially when weighing the pros and cons of purchasing long-term care insurance versus remaining uninsured. Currently, about 55 percent of people over 85 years old need some form of long-term care. When deciding to purchase insurance the gamble that a person could be one of the 45 percent that will not need long-term care can be perceived as a better option than paying for insurance.

We must tear down the notion that the purchase of this type of insurance is a gamble. Long-term care insurance protects assets and income from the devastating financial consequences of long-term health care costs.

Today's comprehensive long-term care insurance policies allow consumers to choose from a variety of benefits and offer a wide range of coverage choices. They allow individuals to receive care in a variety of settings including nursing homes, home care, assisted living facilities and adult day care. Lastly, long-term care insurance allows individuals to take personal responsibility for their long-term health care needs and reduces the strain on the Medicaid budget.

While planning for long-term care costs by buying insurance is a step in the right direction, this may not be the ideal solution for everyone. For younger individuals, saving for long-term care needs, whether for the later purchase of long-term care insurance or paying outright for care is sometimes more beneficial than buying insurance. We should support early savings efforts for insurance and care, as many people don't think about this need until it is far too late.

Putting away money over time, as we will hear from Joanne Vidinski, can be a very powerful means of affording insurance or care. However, with our national savings rate in steady decline I fear the American middle class is woefully unprepared to meet the coming challenges of their long-term care needs.

I have recently introduced The Long-Term Care Trust Account Act of 2006 to incentivize savings and the purchase of insurance. My legislation will create a savings vehicle for the purpose of preparing for the costs associated with long-term care services and purchasing long-term care insurance. Individuals who contribute to this account will receive a tax credit on their contributions. This will help individuals save for insurance and the many people in our country that want to help their parents or a loved one prepare for their health care needs.

The issue of long-term care expenditures and costs need not be an insurmountable task. However, it will require action and cooperation by public officials and private providers as we work to find ways to help Americans become better prepared for their long-term care needs. As with any major issue facing this nation, Republicans and Democrats must come together to bring new and innovative solutions to the table. This is a time for ideas,

not ideals, and I look forward to working with my colleagues as we strive to meet this growing challenge.

Lastly, I'd like to thank all of our witnesses who join us here this morning. We have assembled two excellent and diverse panels, and I am eager to hear your thoughts as we engage in a meaningful and productive dialogue that will shed some light on the challenges and successes of long-term care financing.

With that, I'll turn to my colleague Senator Kohl for his opening remarks.