MEMORANDUM TO THE VICE PRESIDENT

FR: Sarah Bianchi

RE: Background on Long-Term Care

Summary: Americans of all ages, particularly the elderly and their families, fear developing a need for intense, ongoing long-term care. Unlike acute care, long-term care is rarely paid for by private insurance and Medicare, and is more likely to require out-of-pocket expenditures. It also takes a huge financial and emotional toll on family and friends who provide most of this care. Because of its complexity, however, no single policy can "solve" this problem.

Growing Need for Long-Term Care

- **Who needs long-term care.** People with chronic illness or disability not only need doctor, hospital and other acute care services -- they also need a wide range of services to manage their health conditions and perform basic activities of daily living. For example, people with strokes may be bed-bound due to paralysis and need help with eating, moving and changing their feeding tubes. Diabetics or people with congestive heart failure may require frequent injections, medication and doctor visits. People with Alzheimer's disease often need constant monitoring and changes to their physical environment to allow them to live at home safely. Long-term care encompasses these and other services. It is probably the most complicated area of health care, since it varies based on a person's specific condition and limitations as well as access to care from institutions, health providers, families and friends.

  About 5 million Americans of all ages have significant limitations (cannot perform 3 or more activities of daily living without assistance) because of illness or disability and thus require long-term care. Nearly 2 million of these people live in nursing homes; the remainder live in the community and benefit from irreplaceable and uncompensated caregiving from countless relatives and friends. About 13 million Americans have chronic illnesses or disabilities that are less limiting but still may require some type of long-term care.

  More than two-thirds of people with long-term care needs are elderly -- nearly half of all people age 85 and older need assistance with everyday activities. Older women are more likely to need long-term care than men; three-fourths of nursing home residents are women.

- **The aging of America will create a greater need for long-term care.** The sheer increase in number of elderly in the next century means more chronic illnesses. The number of people age 65 years or older will double by 2030 (from 34.3 to 69.4 million), so that one in five Americans will be elderly. The number of people 85 years or older will grow even faster (from 4.0 to 8.4 million). By 2050, the number of older, disabled people could double.

- **Not just a challenge for the elderly**. About 2 million people with substantial long-term care needs are younger than age 65. The rate of disability has been rising among children. In part, this reflects a little-noticed effect of the success in helping premature, sick, or disabled newborns. Their increased survival through infancy has led to a need for long-term care as they grow up. Also, many adults have long-term care needs due to lifelong health conditions (e.g., cerebral palsy) or conditions developed as adults (e.g., multiple sclerosis).

Long-Term Care System

- **Medicare was not designed to cover long-term care.** Long-term care costs account for nearly half (44 percent) of all uncovered, out-of-pocket health expenditures for Medicare beneficiaries. When it was created in 1965, Medicare was modeled after a typical private insurance policy and thus did not include long-term care coverage. Adding long-term care services to the Medicare program now would be extremely expensive – several hundred billion dollars.

- Unfortunately, nearly 60 percent of all Medicare beneficiaries -- and two-thirds of people under age 65 -- do not realize that Medicare does not pay for long-term nursing home care. This means that the majority of Americans are unprepared for the financial and emotional challenges of paying for and/or providing long-term care.

- **Medicaid is already the major payer of long-term care, but historically has focused on nursing homes**. Medicaid is the largest payer of long-term care in the nation. It covers two-thirds of nursing home residents -- many of whom become eligible for this income-related program because long-term care costs impoverish them. Nursing home costs average almost $50,000 per year. About 80 percent of Medicaid long-term care costs are for nursing homes.

  The remaining 20 percent of costs are for home and community-base services. The share of Medicaid long-term care spending going toward home and community-based services has more than doubled in the last 10 years. Ten years from now, Medicaid spending on these services is projected to equal spending on nursing homes. The Administration has encouraged this shift away from Medicaid's "institutional bias" by approving over 300 waivers for local home and community-based care programs and proposing to repeal the need for such waivers. However, not all Medicaid beneficiaries with long-term care needs have community-based options, and many people with long-term care needs don't qualify for Medicaid at all. To qualify for public assistance through Medicaid, individuals spend-down their income and assets to pay for long-term until they are basically impoverished.

- **Private insurance is relatively new, untested, and covers very few people**. Only about 4 million Americans -- 1.5 percent of all Americans -- have private long-term care insurance. In part, this reflects the newness of the coverage, the inconsistency of benefits across policies, variable regulation, and low demand. Given their cost, even if every baby boomer who could afford private insurance purchased it, less than one-third of long-term care costs would be paid for by private insurance in 2030.

- **Families and friend provide most long-term care.** Informal caregiving is a part of family life for many Americans. About 70 percent of caregivers report it being a positive experience. Only about one-third of the 5 million people with substantial long-term care needs lives in a nursing home -- virtually all of the 3 million community-based people with similar needs rely on one or more relatives or friends for help. The millions of caregivers that provide nearly full-time assistance for these people with severe needs are part of a larger group of Americans that help people with less intense long-term care needs.

  Informal caregiving is extremely common but can be difficult. The costs of such caregiving -- in time, money, and physical and emotional strain -- can be large. Two-thirds of working caregivers report experiencing conflicts that cause them to rearrange their work schedules, work fewer hours, or take an unpaid leave of absence from work. Most of the primary caregivers for the elderly are elderly themselves. Their average age is 60 years old, and half are older than 65. About one third describe their own health as "fair to poor." This presents problems since informal caregiving often requires physical work like heavy lifting, frequent bedding changes, dressing and bathing. These stresses tend to be more severe for families of people with Alzheimer's disease. Such caregivers tend to experience greater time demands, family conflict, strain, mental and physical problems, and financial hardship.

July 27, 1999

MEMORANDUM FOR TONY COELHO
DISTRIBUTION LIST

FROM: RON KLAIN

SUBJECT: **TAX POLICY SPEECH – REVISED APPROACH**

The Vice President has approved, for delivery in Minnesota on Friday, the basic approach we agreed to on the conference call this morning (which included Carter Eskew, Elaine Kamarck, Mark Penn, Laura Quinn, David Beier, Lauren Choi; and myself).

Under this approach, we will NOT unveil a comprehensive Gore Tax Plan on Friday, for a variety of reasons. But we WILL go forward with a tax speech on Friday, to consist of the following elements:

1. General contrast: Irresponsible GOP tax cut scheme vs. Gore position of protect SS, Medicare, Education, the Environment -- and cut taxes, too. This would include the Greenspan/macroeconomic critique of the GOP tax cut plan, as inflationary.

2. Gore support for an overall net tax cut of approximately $285 billion (gross tax cut of $350 Billion), similar to Senate Democratic position

3. Some basic principles for a tax cut: fiscally responsible; fair; targeted to middle class

4. Gore ideas for what should be included in a tax cut package would include:
   a. Health care – We would be vague about coverage increasing measures, and be specific only in our support for the Long Term Care Tax Credit
   b. Permanent R&E Tax Credit – We would support this, as previously advocated by the Vice President
   c. A 401(j) Account, with the Supplemental proposal (from Sperling's memo) – We would offer some details about our proposal, as outlined by Gene
   d. Marriage Penalty Relief to include EITC families – Same idea as above; offer some details, from Gene's memo
   e. Middle class Capital Gains Relief – likewise once again
   f. Retirement savings – vague vision of a revised USA Account
   g. Other previously proposed Clinton-Gore Tax Credits (includes environment, EZ, etc.)

The goal would be to avoid the specifics of a "Gore Tax Plan" and avoid having to defend excessive specifics – while having enough interesting material (especially on items 4c, 4d, and 4e) to drive news coverage of the Vice President's overall positioning on taxes.

We will have a conference call on Wednesday morning to set the next steps on planning this speech, back-up paper, and roll out strategy. The manifest is the distribution list at the bottom of this memo, plus any others you wish us to add.

Distribution: Kamarck, Beier, Eskew, Penn, Quinn, Dixon, Choi, Attie, Sperling