



Why Medicaid Could Be the Real Threat to Our Economy

CBO Long-Term Budget Outlook (Rev. August 2010), Introduction:

All told, CBO projects, the aging of the population and the rising cost of health care will cause spending on the major mandatory health care programs and Social Security to grow from roughly 10 percent of GDP today to about 16 percent of GDP 25 years from now if current laws are not changed. (By comparison, spending on all of the federal government's programs and activities, excluding interest payments on debt, has averaged 18.5 percent of GDP over the past 40 years.)

At first glance, Medicaid looks like the little brother in Table S-3 in the FY 2011 budget.

	Federal spending (in billions)	# of people	# over age 65
Social Security	\$ 703	50 million	35 million
Medicare	\$ 451	46 million	39 million
Medicaid	\$ 275 (Federal share only)	58 million	6 million
Total	\$1.4 TRILLION		

The first thing you notice is that Medicaid has more people on it than Social Security or Medicare. Twenty percent of Americans are on Medicaid and Medicaid pays 16 percent of health care costs in the United States (Kaiser Commission on Medicaid Facts, June 2010). Medicaid represents 20% of state budgets on average today and is projected to grow at 7.5% annually to 35% by 2030, according to the Deloitte Center for Health Solutions. The biggest driver of this rapid growth is long-term care, Deloitte says, which makes up a third of the Medicaid budget in most states but is expected to zoom to half by 2030.

But then consider that total Medicaid Federal and State was \$344 billion in 2008 and that the elderly and disabled together only make up 25% of enrollment but consume two-thirds of the dollars. That's 15 million people consuming \$230 billion, for an annual average of \$15,000 per person. The FY 2011 budget predicts that the federal share of Medicaid will grow 80% by 2020. But remember, the baby boomers start turning 65 in 2011. What if 50% of the baby boomers hit Medicaid for long-term care over the next 10-20 years? That's 40 million additional people! (Since less than 8 million people of all ages have long-term care insurance today, the prospects for tapping Medicaid for long-term care are truly chilling!)

Forty-six states are facing budget shortfalls in FY 2011, reports the Center on Budget and Policy Priorities. The financial assistance from the economic stimulus bill (The American Recovery and Reinvestment Act of 2009) to help states with these shortfalls was scheduled to end December 31st. A "band-aid" passed as Public Law 111-226 to extend a small amount of additional funding until 6/30/11, but then what?

So often we forget that the dollars sucked up by Medicaid is causing funding to be pulled from other critical programs like education, crime enforcement, roads and other public works, not to mention the jobs lost in both the public sector as states lay off employees and the private sector as states cancel vendor contracts. The *2010 Fiscal Survey of the States* makes it really clear:

- In 2010, 35 states have made cuts in K-12, 37 in higher education and only 31 made cuts in Medicaid....total education cuts were \$7.8 billion vs. only \$1.5 billion for Medicaid.
- 25 states had layoffs and 12 had salary reductions.

Now, some states were able to make up some of the cuts with the additional federal funding that was due to end December 31, 2010 and some other sources, but I wanted you to see the ratio of significantly more dollars cut from education than Medicaid.

Finally, at least 30 states have partially addressed their budget shortfalls by increasing taxes since the recession began, which destimulates the economy by reducing the amount of money people have to spend.

How Did We Get to This Point? Surprise – It’s Not Just an Aging Population!

A common prediction for many years has been that the baby boomers hitting Medicaid for long-term care would be an economic disaster for state governments and taxpayers, but the recent pressure from younger, nondisabled adults winding up on Medicaid for health care adds an unexpected weight to an already staggering payment system.

High unemployment has turned many young families to Medicaid for health care, and this pressure on state budgets is exacerbated by the corresponding loss of state income tax and sales tax as the unemployed aren’t able to contribute their normal share. In addition to this unavoidable result of the recession, the Patient Protection and Affordable Care Act (PPACA) of 2010 will increase the income threshold for Medicaid eligibility for acute care services and remove the requirement to be a parent with dependent children.

As a result, an additional 16 million adults will be able to access Medicaid for health insurance, as those with incomes up to effectively 138 percent of the federal poverty level become eligible January 1, 2014. The federal government has promised to pay 100% of the cost of benefits for three years, then taper off to 90%. My question is two-fold: when this promise was made, did the actuaries project benefit costs based on the average health care costs for younger adults? Or did they realize that many are low-income because they are victims of mental illness and chronic conditions that keep them unemployed and sometimes homeless? And what about the administrative and staffing costs to absorb this needy population in a few short years?

The final tipping point is that the PPACA calls for an unprecedented expansion of Medicaid home care benefits. “Since this is the main place we all want care,” Shelton says, “I predict people who would never turn to Medicaid because of the welfare stigma will now come out of the woodwork to claim these benefits.”

Heard enough? We haven’t even talked about the tax increases it would take to support that many people on Medicaid, especially when the ratio of 150 million workers to 58 million people on Medicaid today is 2.5 to 1.

Want to help? **IT’S NOT TOO LATE!!** Here’s how:

The more people who understand the need to buy long-term care insurance while they are young enough to afford it and healthy enough to qualify for it medically, the more private pay dollars will go into our economy over the next 30-40 years.

The call to action is for media representatives to work with financial professionals to educate Americans about the need to proactively plan ahead for long-term care. Those who don't plan ahead are practically reserving a slot in a program that will be slammed with baby boomers who will have very little choice of type and place of care.

Research from McKinsey & Co. finds that the average American family will face a savings gap of \$250,000 at the time of retirement. Even with payments from Social Security and pensions, as well as personal savings in 401(k) and other retirement plans, the average family will have only about two-thirds of the income it will need.

And Terry Savage, *Chicago Sun-Times* financial columnist devotes an entire chapter to "The Greatest Risk of All" in her book, **The New Savage Number: How Much Money Do You Need to Retire?**

What's the greatest risk in your financial plan? We've seen how a stock market crash can devastate retirement plans. But the greatest risk is not the longevity of this bear market, or even another bear market. It's the devastating cost of long-term care. And just as many pre-retirees didn't take the possibility of declining stock prices into consideration when making their retirement plans, most people don't consider the costs of living longer and the health-care and lifestyle implications.

With quotes like these, how can anyone who has the power to disseminate financial education ignore long-term care insurance anymore? For that matter, how can any middle- and upper-income consumer believe that long-term care insurance is a luxury, not a necessity? If we work together to get the word out to Americans that it is possible to protect their families **and** their retirement funds from the ravages of caregiving without help, we have the power to make a significant improvement in our nation's economy, while offering families dignity and choice when care is needed.

Consumers: [Click here](http://www.ltconsultants.com/pdfdocs/Long-TermCareInsuranceMadeEasy.pdf) for *Long-Term Care Insurance Made Easy*. (or paste <http://www.ltconsultants.com/pdfdocs/Long-TermCareInsuranceMadeEasy.pdf> into your browser).

Media contacts: contact us now to arrange interviews with financial professionals dedicated to saving families and jobs by positioning LTCI as payer of FIRST RESORT and Medicaid as payer of LAST RESORT before or during:

The 2010 Family and Jobs Rescue Tour

Seattle	Orlando	Atlanta	NJ/PA	Chicago	Dallas	Los Angeles
Sept. 15	Oct. 5	Oct. 13	Oct. 19	Oct. 26	Nov. 3	Nov. 9

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Sources used in this report:

Attitudes of Americans about long-term care:

"America Talks: Protecting Our Families' Financial Futures"

AgeWave/Harris Interactive Survey sponsored by Genworth Financial

http://multivu.prnewswire.com/mnr/genworthfinancial/43150/docs/43150-Genworth_Compiled_Full_Survey_Results.ppt

Approximate current cost of Social Security, Medicare and Federal share of Medicaid and federal share of Medicaid projected to grow 80% by 2020 (Table S-3 \$275 billion in 2010 to \$488 billion in 2020):
Summary Tables in the FY 2011 Budget

<http://www.whitehouse.gov/sites/default/files/omb/budget/fy2011/assets/tables.pdf>

Number of people on Social Security

Social Security Administration Monthly Statistical Snapshot, June 2010:

http://www.ssa.gov/policy/docs/quickfacts/stat_snapshot/

Number of people on Medicaid and expenditures and number # of people over age 65:

"The Medicaid Program at a Glance", Kaiser Commission on Medicaid Facts, June 2010

<http://www.kff.org/medicaid/upload/7235-04.pdf>

Number of people on Medicare; ratio of workers to Social Security beneficiary:

"The Long-Term Budget Outlook", June 2010 (rev. August 2010) Congressional Budget Office

<http://www.cbo.gov/doc.cfm?index=11579>

Percentage of state budget dollars that go to Medicaid today:

"FY 2008 State Expenditures Report", National Association of State Budget Officers, Fall 2009

<http://www.nasbo.org/Publications/StateExpenditureReport/tabid/79/Default.aspx>

Percentage of Medicaid consumed by LTC; Medicaid pays 34% of HHC and 43% of NHC; 2030 projection for percentage of state budgets consumed by Medicaid and percentage of Medicaid consumed by long-term care:
"Medicaid Long-Term Care: The Ticking Time Bomb", Deloitte Center for Health Solutions, June 21, 2010

http://www.deloitte.com/assets/Dcom-UnitedStates/Local%20Assets/Documents/US_CHS_2010LTCinMedicaid_062110.pdf

46 states are facing budget shortfalls in FY 2011

McNichol, Elizabeth, Phil Oliff and Nicholas Johnson. "Recession Continues to Batter State Budgets; State Responses Could Slow Recovery", Center on Budget and Policy Priorities, Updated July 15, 2010

<http://www.cbpp.org/files/9-8-08sfp.pdf>

A small extension passed to continue additional Federal aid until 6/30/11

Hebert, David. "House Passes FMAP in Special Session", AHCA/NCAL

<http://newsmanager.commpartners.com/ahcamemo/issues/2010-08-10/index.html>

Cuts in higher education and Medicaid; layoffs and salary reductions of state employees:

"2010 Fiscal Survey of the States", National Association of State Budget Officers

<http://www.nasbo.org/Publications/FiscalSurvey/tabid/65/Default.aspx>

At least 30 states have raised taxes since the recession began and specific cuts that states have made:

Johnson, Nicholas, Phil Oliff and Erica Williams. "An Update on State Budget Cuts", Center on Budget and Policy Priorities, Updated August 4, 2010

<http://www.cbpp.org/cms/index.cfm?fa=view&id=1214>

National health expenditures – Centers for Medicare and Medicaid Services

http://www.cms.hhs.gov/NationalHealthExpendData/02_NationalHealthAccountsHistorical.asp#TopOfPage

16 million new adults added to Medicaid between 2014 and 2019:

Ku, Leighton. "Ready, Set, Plan, Implement: Executing The Expansion of Medicaid", *Health Affairs*, June 2010 29:6, pp. 1173-1177

<http://content.healthaffairs.org/cgi/content/abstract/29/6/1173>

The average American family will face a savings gap of \$250,000 at retirement:

"The Current State of Americans' Retirement Plans", TIAA-Cref, January 8, 2010

http://www.tiaa-cref.org/public/about/press/about_us/releases/pressrelease314.html

The greatest risk to retirement is long-term care, not the stock market:

Savage, Terry. *Chicago Sun-Times* Financial Columnist, author of "*The New Savage Number: How Much Money Do You Need To Retire?*" John Wiley & Sons, 2009 www.terrysavage.com