Long-Term Care Needs and the Government Response (Part 2 of 3)

Part Two: Budget, Retirement, and Health Policy

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President Clinton's recent proposal to provide tax credits for expenses of long-term care raises a variety of issues not simply of tax policy, but of budget, health, and retirement policy as well. How will the credit deal with and address the expanding demand for long-term care? How does it fit in with an overall federal budget policy that already directs most future expenditures to support retirement and health care and little else? How does the new credit relate to broader issues of health policy—for example, its emphasis on sick care over preventive care—and the rapid growth in health care costs?

There is little doubt that the public's need for some long-term care has been rising and will accelerate not long after the baby boomers begin to retire. Many forces are at play. That we live much longer, however, may not be one of them. Longer lives can just as easily mean more years of productivity as of need for assistance from others. Indeed, there is little evidence that better health care—which is what makes longer lives possible—has merely meant that we will spend longer percentages of our lives in ill health.

The population is also "aging," however, for another reason: the fertility rate has fallen. Even in the absence of longer lives, that implies larger percentages of the population will be in their later rather than earlier years. For example, more of the population will be in the last tenth of their lives, regardless of how much the average lifespan increases. The full effect of this demographic shift on long-term care doesn't fully become felt until the years after 2025 or so, when substantial numbers of baby boomers begin to move into ages of 75 or more—that is, into those later years of retirement when long-term care is more likely to be needed. While this delay may appear to give us time to address the budgetary problems of old age programs, in point of fact this is also the period in which the labor force is projected to grow hardly at all while social security costs continue to grow—reducing the prospect that either economic growth or other parts of the budget are going to make way for long-term care costs once they really begin to skyrocket.

Independently from demographics, however, the demand for long-term care has already been on an expansion path. One reason has been the greater separation of generations. As a nation, we have become accustomed to achieving individual independence in both young and old ages, which is accentuated because of the vast expanse of the country and its mobile population. Even when living near to parents, moreover, fewer working-age adults are at home to care for their elderly parents. Whatever the reasons, a smaller portion of older individuals today can turn to children for support and care.

We must also remember that our richer society has increasingly sought more and more health care of all sorts. New opportunities and new wants go hand in hand. Fifty years ago, for example, few could even dream of retiring into a continuing care community that might serve them with health, recreation, and many other household needs. Today that dream is a reality for many elderly and near-elderly individuals.

How does the proposed tax credit for long-term care respond to this changing set of circumstances? It's hard to say, as little effort has been made to explain the credit in the context of society's changing needs and demands. Nor has anyone articulated any direction for a comprehensive long-term care policy.

Before any long-term care legislation is enacted, therefore, a first step should be to relate any proposed credit to the rest of government policy for the elderly and near elderly. Those expenditures already take up about half of domestic federal spending, and the percentage is rising dramatically. The administration's own projections show a federal government in the future that is devoted almost solely to retirement and health and little else. Simply tacking a program for long-term care onto this existing structure in some ways makes it more unsustainable—at least in the aggregate—than it was before. That the long-term care would be financed out of reduced taxes, rather than increased expenditures, really doesn't change the overall calculus. The net

amount left for everything other than retirement and health still falls toward zero at a slightly faster pace.

As an issue of health policy, long-term care raises a number of important issues as well. At some level, many types of expenditures can be measured as good for "health." Most government expenditures to date, however, have been concentrated on acute care rather than preventive care, or, as former Secretary of Health, Education, and Welfare, Joe Califano, likes to say, on sick care rather than health care. Some aspects of "long-term" care have nothing at all to do with health care. For example, many expenses of long-term care relate to normal costs of living such as residence and food. But "health" and "non-health" expenses all mingle together in ways that only the most legalistic mind would try to separate: costs of food preparation for those who can and cannot perform such functions, massages for those with healthy and weak bodies, recreation and physical therapy for fun and for psychological health, transportation for those with varying degrees of mobility, and so on.

At one time America's policy toward the elderly centered around a social security system that was designed to avoid labeling the elderly into needy and non-needy populations. Not only did that help most elderly avoid the welfare stigma, but it reduced the extent to which the direction of Americans' lives in retirement would be determined by the pen of some administrator. As the nation's expenses on the elderly becomes increasingly dominated by health and other highly regulated expenses, we are steadily reversing that previous policy. Simultaneously, we reduce the amount of revenues left over for everything else. Thus, when legislators eventually react to the known shortfall in social security, the huge health budget will probably lead them to reduce cash benefit payments more than they would otherwise.

If more money is simply added to the government's existing subsidies for health care while nothing else is done, one effect will be to raise the cost of health care still further. However, if the subsidy goes mainly to cover the first dollars of health care expense—costs that would be paid by many people anyway—then the pressure on prices is less. That is, economists usually view subsidies of the last dollars of expense as more cost-increasing in their effect because they are more likely to induce even more purchases than other types of subsidies. Subsidization of the first dollars of expense puts the emphasis on providing a minimum base of help and can be considered more akin to some of the voucher proposals that are being suggested as a substitute for more open-ended health care subsidies. Since the administration doesn't provide an integrated view of long-term care policy, it is not clear whether they would favor a voucher approach over time to expansions of long- term care assistance through Medicare and Medicaid. They really don't say. But it is clearly an issue worth addressing.

In sum, the demands for long-term care continues to expand. A rational policy must try to fit those demands in with other requirements for sound budget, retirement, and health policy. Or else the money will not likely be spent well.

Other Publications by the Authors

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