

A Look at Our Future: When Baby Boomers Retire

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**Presentation to the Medicaid Commission
March 14, 2006
Atlanta, GA**

Overview

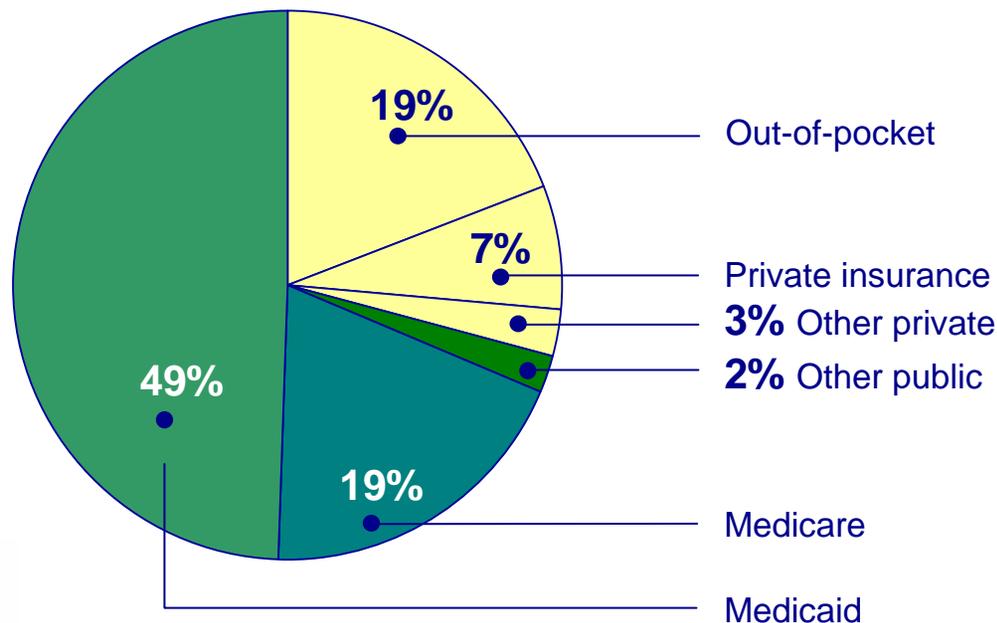
- Background
 - Expected pressure from entitlement spending in coming decades
 - How aging of baby boomers will increase demand for long-term care services
 - How these trends will affect current and future financing of long-term care services
 - Considerations for possible reforms of long-term care financing
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Background on Long-Term Care

- Services needed when a person has a certain level of physical or mental disability
 - Difficulty in performing
 - Activities of Daily Living (ADL), such as bathing, dressing, toileting, eating, moving from one location to another
 - Instrumental Activities of Daily Living (IADL), such as preparing food, housekeeping, handling finances
 - Disability and need for long-term care can occur at any age
 - Assistance is provided in many forms and settings
 - Many persons with a disability rely exclusively on care from informal caregivers
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Medicaid Is the Largest Payer for Long-Term Care Services

\$193 Billion Spent on Long-Term Care in 2004



Source: GAO analysis of 2004 data from the Centers for Medicare & Medicaid Services (CMS).

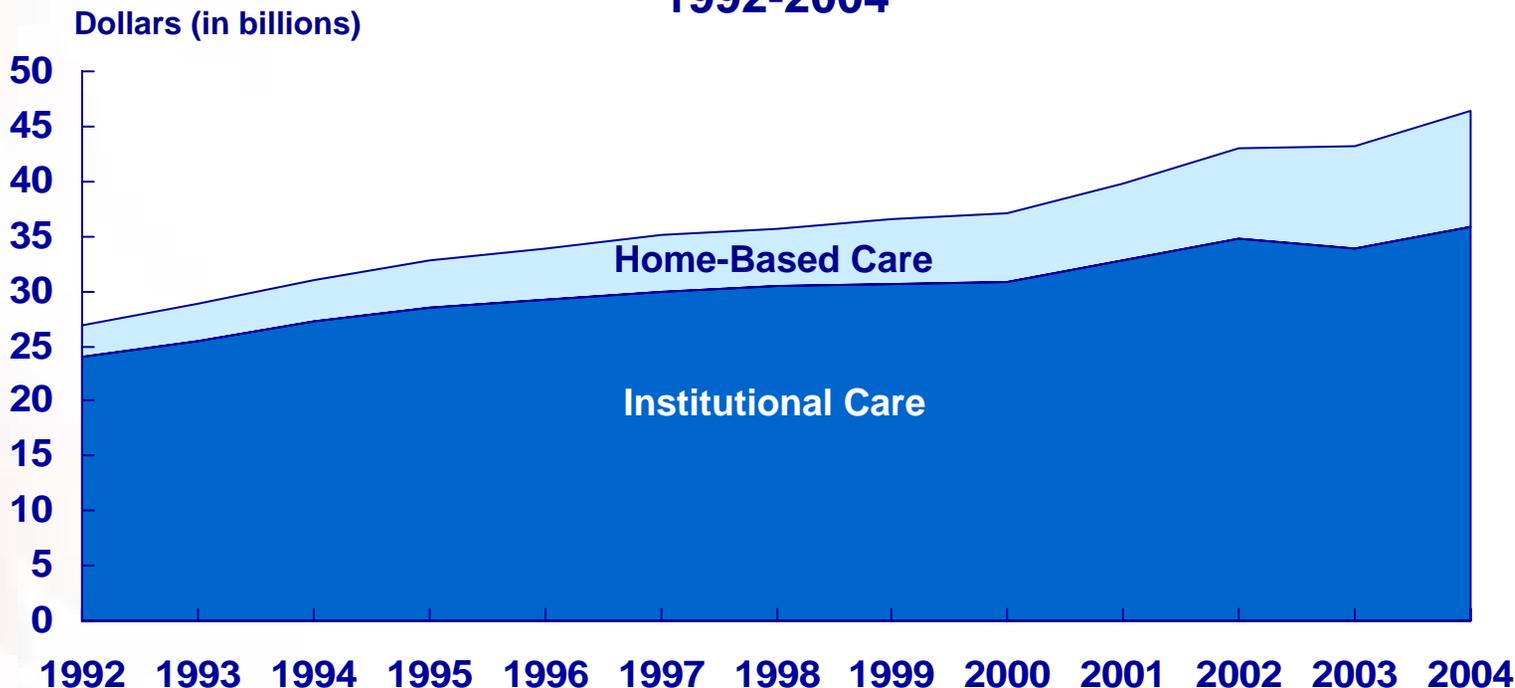
Note: Amounts do not include unpaid care provided by family members or other informal caregivers. Percentages do not add to 100 percent due to rounding.

Medicaid Is the Largest Payer for Long-Term Care Services

- Medicaid eligibility for long-term care coverage
 - Low income
 - Disabled
- Medicaid financed jointly by federal and state governments
- About 57 percent of Medicaid long-term care spending was for elderly individuals (2002)
- Nursing home care accounted for about 46 percent of Medicaid long-term care spending (2004)

Home Care Expenditures Are a Growing Share of Medicaid Long-Term Care Spending

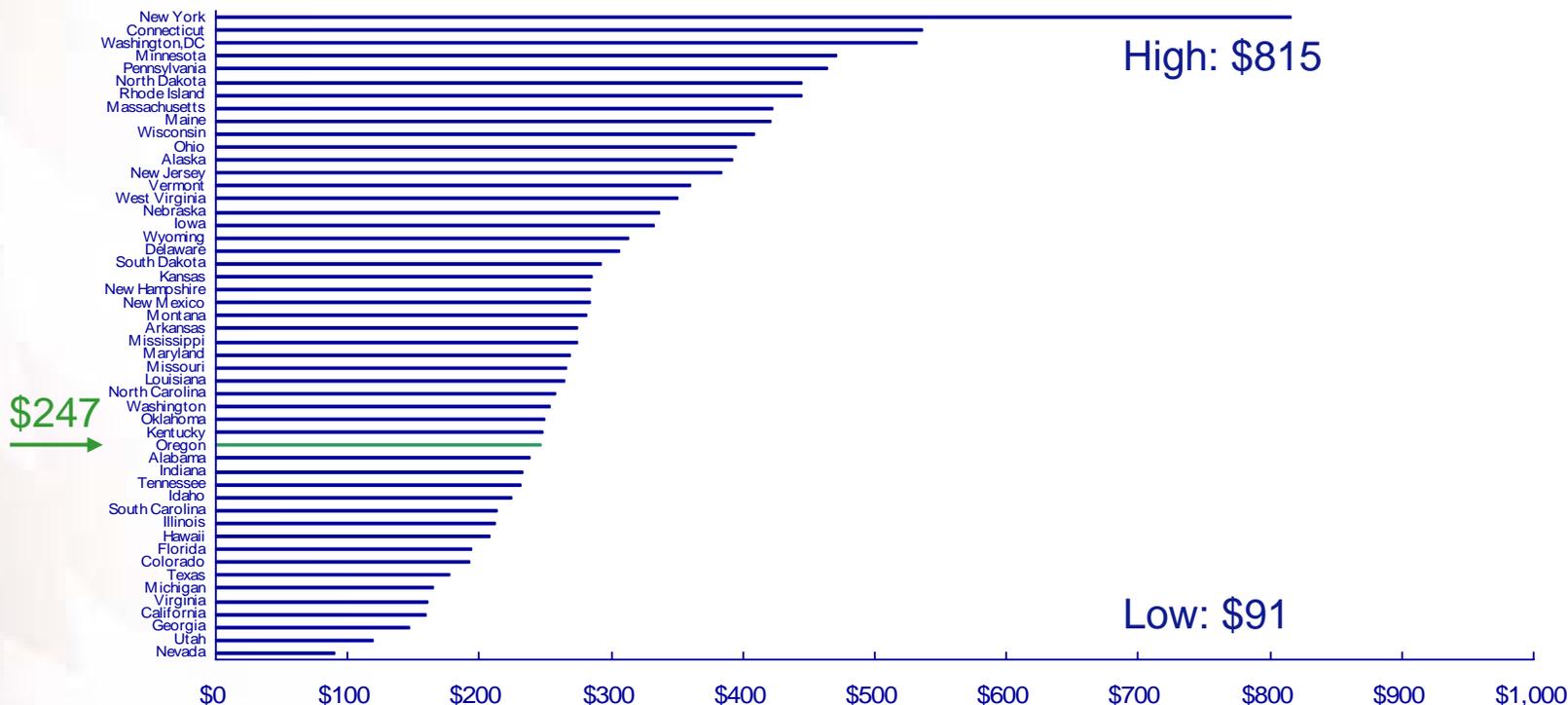
Medicaid Long-Term Care Spending for Elderly Beneficiaries, 1992-2004



Source: Congressional Budget Office (CBO), *The Cost and Financing of Long-Term Care Services* (Washington, D.C.: April 2005).

Medicaid Spending on Long-Term Care Varies Across States

Medicaid per Capita Spending for Long-Term Care, by State, 2003

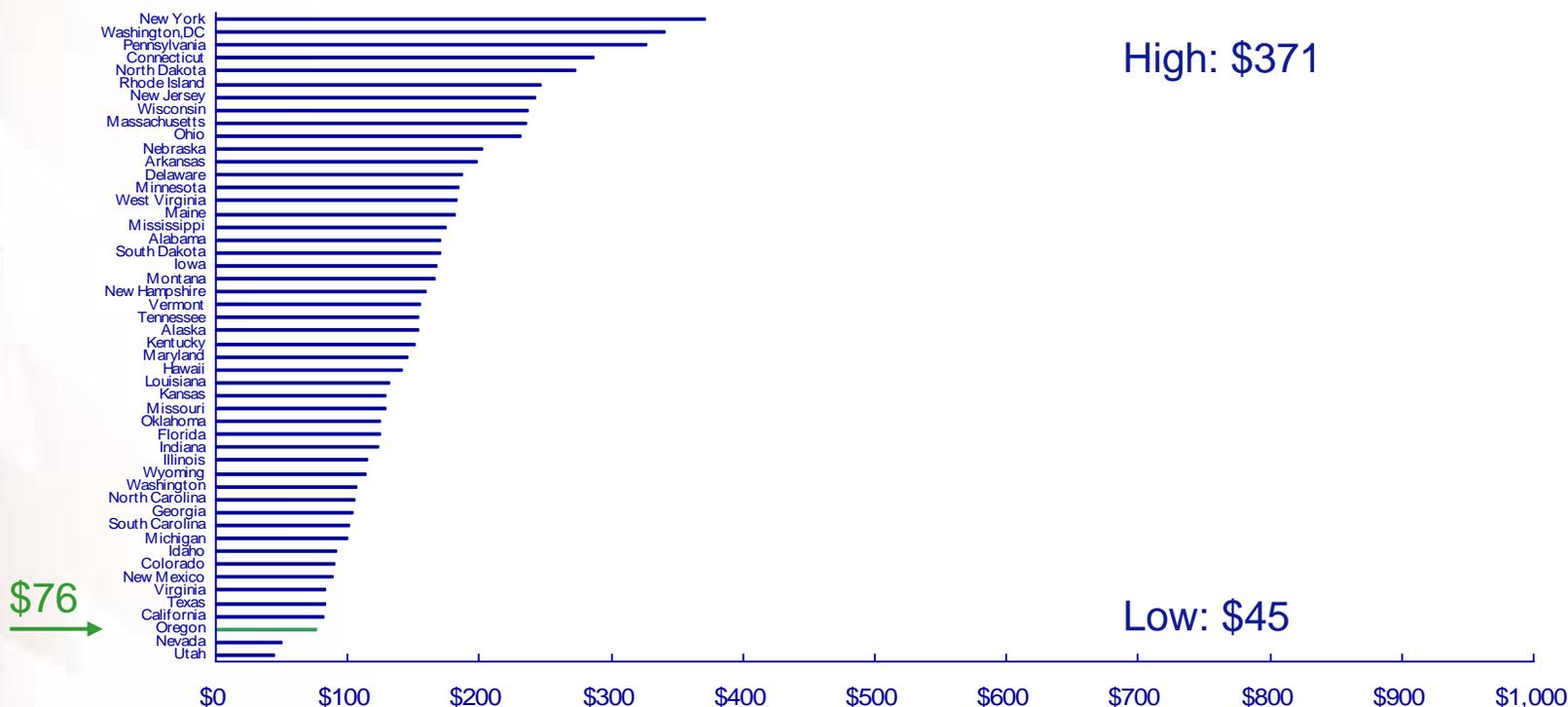


Source: GAO analysis of 2003 data from HCBS/Clearinghouse for the Community Living Exchange Collaborative.

Note: Data was not available for Arizona.

Medicaid Spending on Nursing Home Care Varies Across States

Medicaid per Capita Spending for Nursing Home Care, by State, 2003



Source: GAO analysis of 2003 data from HCBS/Clearinghouse for the Community Living Exchange Collaborative.

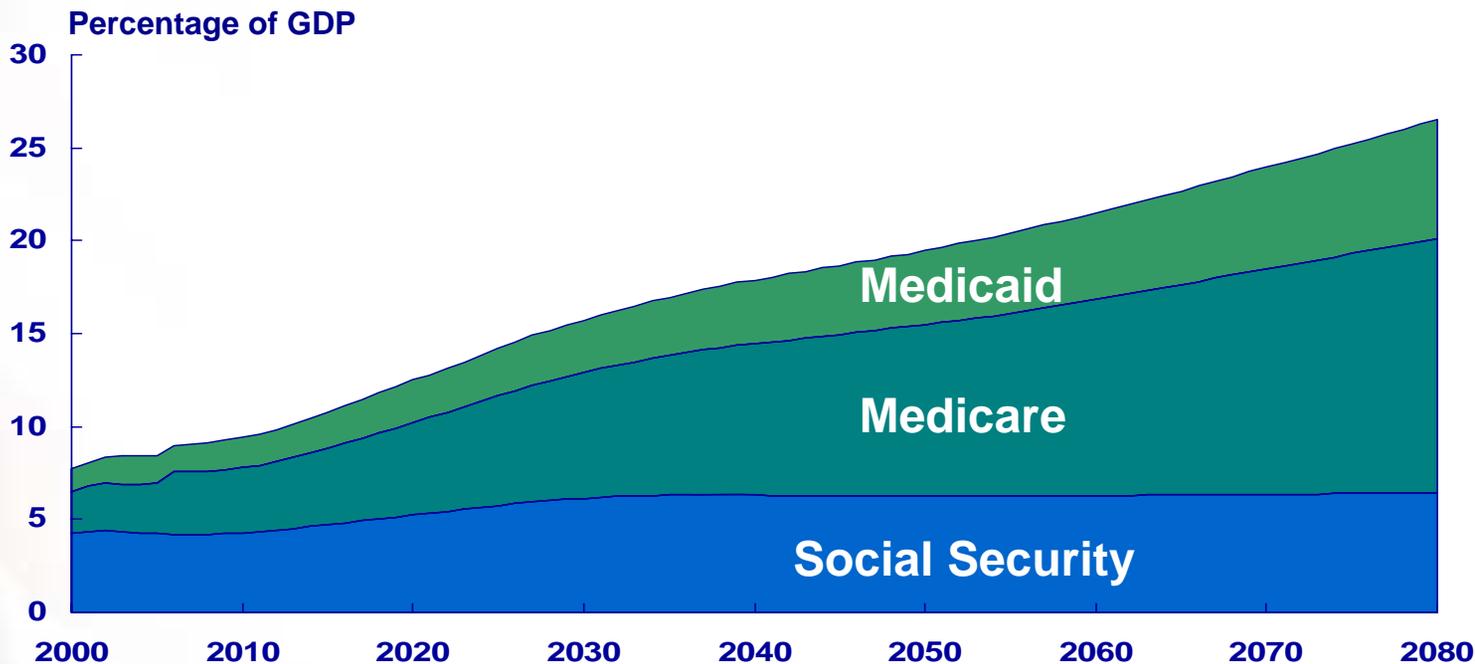
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Medicaid Spending May Reach Over 6 Percent of GDP by 2080

Federal Spending for Entitlement Programs, 2000-2080

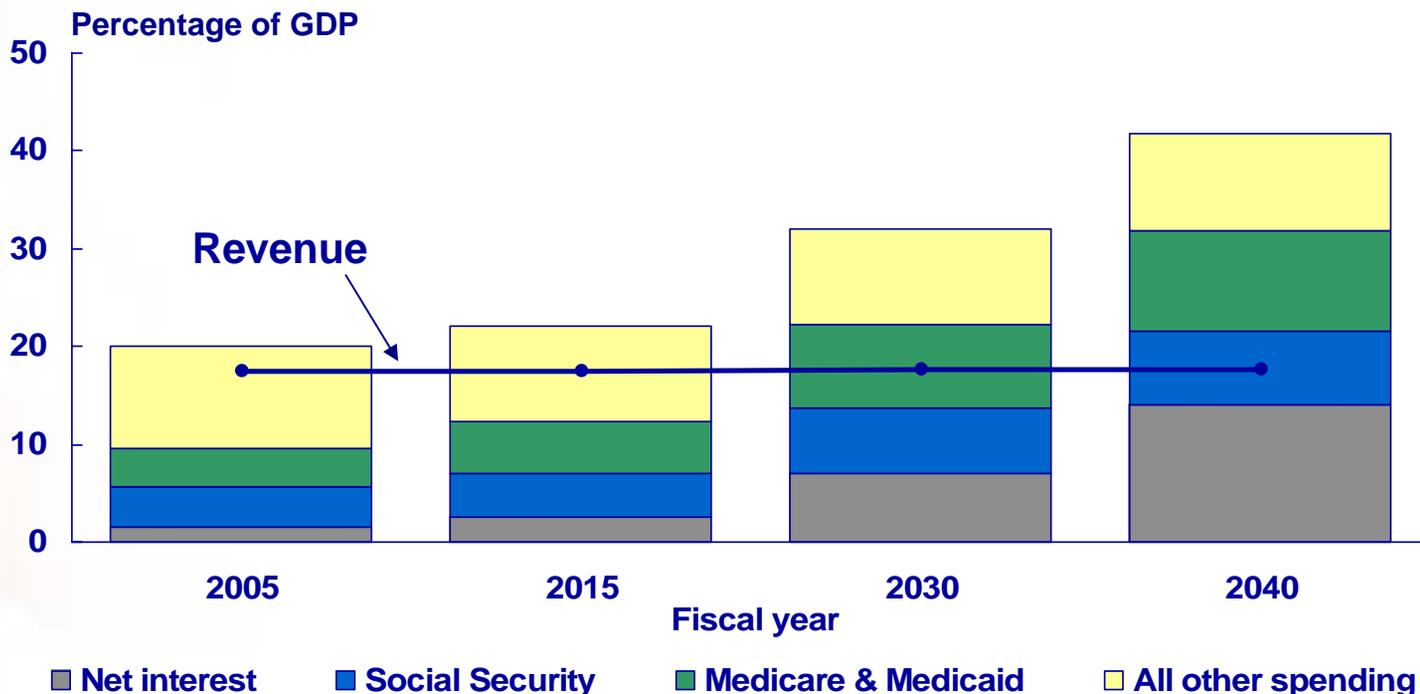


Source: GAO analysis based on data from the Office of the Chief Actuary, Social Security Administration (SSA); Office of the Actuary, CMS; and CBO.

Note: Social Security and Medicare projections are based on the intermediate assumptions of the 2005 Trustees' Reports. Medicaid projections are based on CBO's January 2006 short-term Medicaid estimates and CBO's December 2005 long-term Medicaid projections under mid-range assumptions.

Federal Revenue May Cover Little More than Interest on the Federal Debt by 2040

Composition of Federal Spending, 2005-2040



Source: GAO's January 2006 analysis.

Note: It is assumed that discretionary spending grows with Gross Domestic Product (GDP) after 2006 and all expiring tax provisions are extended, such as the increased AMT exemption amount.

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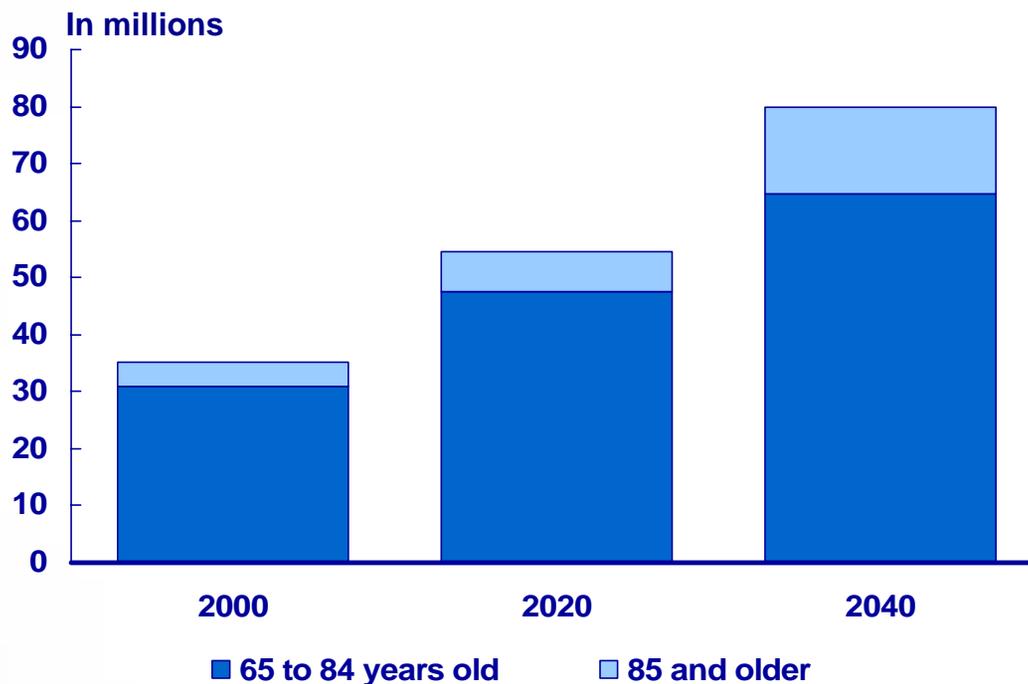
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Baby Boom Generation Affects Federal Entitlement Programs

- Worker-to-retiree ratio changes will lead to imbalance between outlays and revenues
 - In 2000, 4.8 working-age persons per elderly person
 - By 2030, 2.9 working-age persons per elderly person
- Social Security and Hospital Insurance portion of Medicare are pay-as-you-go systems
- Medicare spending escalation expected from aging of the population, high costs, high utilization, and new drug benefit
- Medicaid is the second largest and fastest growing item in state spending; more than 2/3 of Medicaid dollars directed to the elderly and disabled (2003)

Elderly Population Aged 85 and Older Will Increase More than 250 Percent by 2040

Elderly Population, 2000-2040



Sources: U.S. Census Bureau, *Annual Estimates of the Population by Sex and Five-Year Age Groups for the United States: April 1, 2000 to July 1, 2004 (NC-EST2004-01)* (June 2005) and *U.S. Interim Projections by Age, Sex, Race, and Hispanic Origin* (Mar. 2004).

Baby Boom Generation Will Greatly Expand Demand for Long-Term Care

- Total number of disabled elderly projected to increase by 1/3 to twice the current level by 2040, as high as 12.1 million
- 1 in 5 adults with long-term care needs and living in community reported an inability to receive needed care (2000)
- The majority of care received in the community is by unpaid caregivers, usually family members and friends
- Elderly without family support projected to reach 1.2 million in 2020, almost twice as high as in 1990

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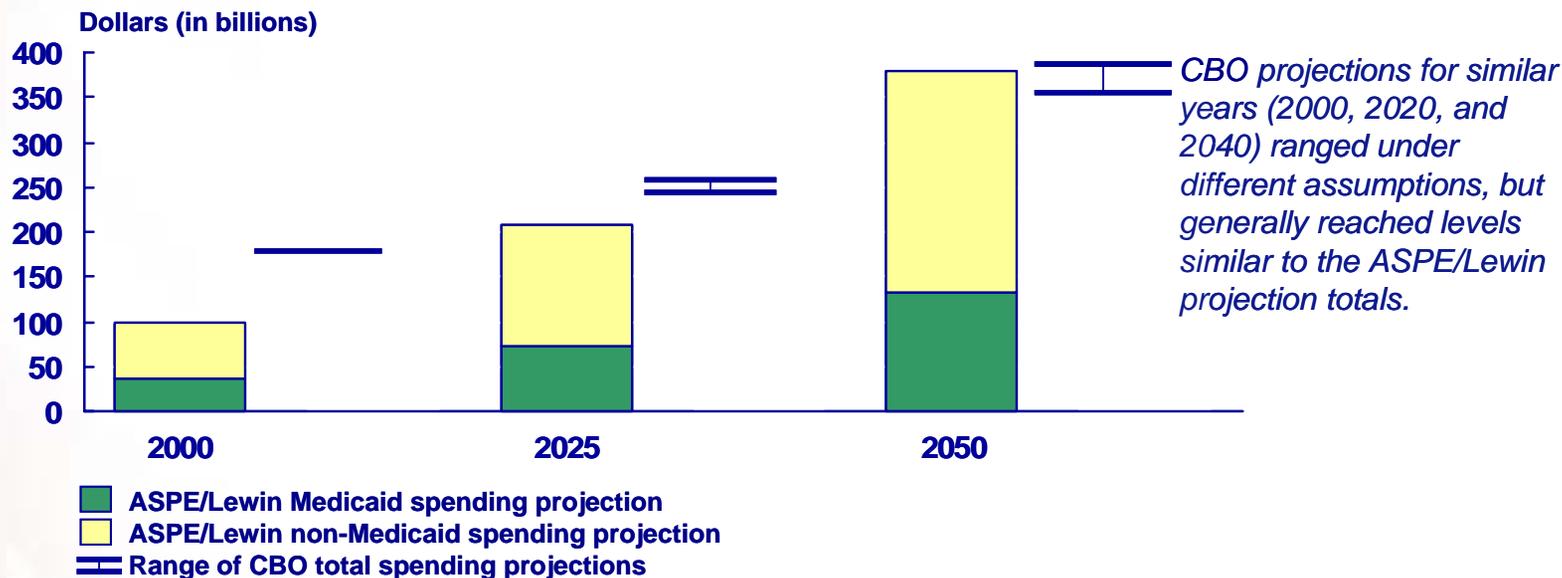
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Estimates of Future Long-Term Care Spending Imprecise, but Sharp Increases Are Expected

- Estimates of future long-term care spending vary because of
 - Number of elderly who will need assistance
 - Type of care the elderly will use
 - Availability of public and private sources of care
- Absent significant changes in the availability of payment sources, future spending will continue to rely on public payers, particularly Medicaid

Long-Term Care Expenditures for the Elderly Could Quadruple by 2050

Long-Term Care Expenditures for the Elderly, 2000-2050



Sources: CBO, *Projections of Expenditures for Long-Term Care Services for the Elderly* (Washington, D.C.: March 1999) and ASPE/Lewin, published in Urban Institute, *Long-Term Care: Consumers, Providers, and Financing, A Chart Book* (Washington, D.C.: March 2001), with additional information provided by ASPE on projected Medicaid spending.

Note: ASPE/Lewin projections are in constant 1999 dollars and CBO projections are in constant 2000 dollars.

Increasing Strain on Federal and State Governments Expected

Without fundamental changes in how long-term care is financed, we can anticipate an increasing burden that will strain both federal and state governments.

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Issues to Consider for Reforming Long-Term Care Financing

Long-term care \neq health care

Issues to Consider for Reforming Long-Term Care Financing

- Determine societal responsibilities
 - Consider the potential role of social insurance
 - Encourage personal preparedness
 - Recognize the benefits, burdens, and costs of informal caregiving
 - Assess the balance of federal and state responsibilities to ensure adequate and equitable satisfaction of needs
 - Adopt effective and efficient implementation and administration of reforms
 - Develop financially sustainable public commitments
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Related GAO Products (www.gao.gov)

- *Long-Term Care Financing: Growing Demand and Cost of Services Are Straining Federal and State Budgets* (GAO-05-564T)
 - *Long-Term Care: Availability of Medicaid Home and Community Services for Elderly Individuals Varies Considerably* (GAO-02-1121)
 - *21st Century: Addressing Long-Term Fiscal Challenges Must Include a Re-examination of Mandatory Spending* (GAO-06-456T)
 - *21st Century Challenges: Reexamining the Base of the Federal Government* (GAO-05-325SP)
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