LONG-TERM CARE FINANCING

Growing Demand and Cost of Services Are Straining Federal and State Budgets

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Highlights

Highlights of GAO-05-564T, a testimony before the Subcommittee on Health, Committee on Energy and Commerce, House of Representatives

Why GAO Did This Study

Long-term care relies heavily on financing by public payers, especially Medicaid, and has significant implications for state budgets as well as the federal budget. It includes an array of health, personal care, and supportive services provided to persons with physical or mental disabilities. As the baby boom generation ages, the number of elderly with disabilities will greatly expand the demand for long-term care services and will impose greater burdens on federal and state budgets.

GAO was asked to discuss the budgetary and other challenges resulting from the anticipated increase in demand for long-term care services. This testimony addresses (1) the pressure that entitlement spending for Medicare, Medicaid, and Social Security is expected to exert on the federal budget in coming decades; (2) how the aging of the baby boom population will increase the demand for long-term care services; and (3) how these trends will affect the current and future financing of long-term care services, particularly in federal and state budgets. The testimony also highlights several considerations for any possible reforms of long-term care financing. This testimony updates prior GAO work, particularly *Long-Term Care: Aging Baby Boom Generation Will Increase Demand and Burden on Federal and State Budgets*, GAO-02-544T (Washington, D.C.: March 21, 2002).

www.gao.gov/cgi-bin/getrpt?GAO-05-564T.

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What GAO Found

Over the coming decades, entitlement spending for Medicare, Medicaid, and Social Security is expected to absorb larger shares of federal revenue and threatens to crowd out other spending as the baby boom generation enters retirement age. The increasing demand for long-term care services fueled in part by the baby boom generation will also further strain federal and state budgets. Estimates suggest the future number of disabled elderly who cannot perform basic activities of daily living without assistance may as much as double from 2000 through 2040, resulting in a large increase in demand for long-term care services. Spending on long-term care services just for the elderly is estimated to increase by more than two-and-a-half times between 2000 and 2040, and could nearly quadruple in constant dollars between 2000 and 2050 to $379 billion, according to some estimates. Without fundamental financing changes, Medicaid can be expected to remain one of the largest funding sources, straining both federal and state governments.

Financing the increasing demand for long-term care services will be a significant 21st century challenge for the nation. A key question for policymakers will be to consider what options exist for rethinking the federal, state, and private roles in financing long-term care. In considering options for reforming long-term care financing, GAO notes that long-term care is not just about health care. It also comprises a variety of services an aged or disabled person requires to maintain quality of life—including housing, transportation, nutrition, and social support to help maintain independent living. Given the challenges in providing and paying for these myriad and growing needs, GAO has identified several considerations for shaping reform proposals that include:

- determining societal responsibilities;
- considering the potential role of social insurance in financing;
- encouraging personal preparedness;
- recognizing the benefits, burdens, and costs of informal caregiving;
- assessing the balance of state and federal responsibilities to ensure adequate and equitable satisfaction of needs;
- adopting effective and efficient implementation and administration of reforms; and
- developing financially sustainable public commitments.