

**Testimony of  
Stuart Shapiro, M.D.  
President & CEO  
Pennsylvania Health Care Association (PHCA)  
on  
Funding Long-Term Care for Baby Boomers  
before the  
House Aging & Older Adult Services Committee  
in  
Harrisburg, PA  
January 30, 2008**

Chairman Mundy, Chairman Hennessey and members of the Committee. I appreciate the opportunity to appear before you today to discuss what I believe promises to be one of our state's, and nation's, most serious social and fiscal challenges: How do we pay for the long-term care needs of our Greatest Generation's children --- the baby boomers?

My name is Dr. Stuart Shapiro and I am President & CEO of the Pennsylvania Health Care Association (PHCA), a statewide advocacy organization for the commonwealth's elderly and disabled residents and their providers of care. Our mission is to ensure that those who need long-term care receive quality services in the most appropriate setting as they age. The key words are "quality" and "appropriate setting," and I will discuss these in more detail throughout my testimony. For many of our elderly, services at home can be safely and cost effectively delivered. For others, a nursing home is the appropriate setting for safe and cost-effective care.

Our membership --- comprising for-profit and nonprofit providers --- offers services that range from integrated retirement communities and multi-level care campuses to freestanding nursing homes, assisted living/personal care homes, and ancillary care/home-care enterprises. Overall, PHCA represents nearly 300 long-term care and senior service providers that serve almost 31,000 elderly and disabled individuals across the state.

The challenge of how we pay for the long-term care needs of our Greatest Generation's Children --- the baby boomers --- is a critical issue here in Pennsylvania. Our commonwealth ranks third nationally by percentage of population age 65 or older, behind Florida and West Virginia. Right now, about 2 million of our 12 million residents are age 65 or older. By 2020, more than 25 percent of our population, or 3 million Pennsylvanians, will fall into that demographic --- a 50 percent increase in a little more than a decade.

As one of the nation's oldest and most rapidly aging states, Pennsylvania has a lot at stake, so I commend you all for taking the lead to bring these issues into sharper focus. The timing of this hearing couldn't be more appropriate, either. Baby boomers, the subject of so much discussion over the years, aren't approaching retirement anymore. They have arrived.

As you may know, the first of those 77 million baby boomers officially hit retirement age at the stroke of midnight Jan. 1, 2008. Now, the crest of a demographic wave is breaking. As many as 3.2 million baby boomers --- Americans born between 1946 and 1964 --- will turn 62 this year. That's just the beginning. The U.S. Census Bureau estimates the number of people older than 65 will more than double between 2000 and 2050.

What you may not know is that America's first baby boomer actually was born in Philadelphia, as documented recently by USA Today. It only makes sense then that Pennsylvania --- first out of the gate in starting this demographic wave --- should be first in finding innovative and caring ways to address the significant fiscal and social issues that we, as individuals and as a state and nation, face with respect to long-term care.

I don't think there's any question that Pennsylvania takes care of its older residents. Many of our senior programs, including PACE, have served as national models. The question now is how do we care for an aging population that isn't so easily defined anymore.

At one end of the spectrum are the baby boomers, or those who are now eligible for retirement and the network of programs designed for older adults. Many of these individuals remain active; some even put off retirement to continue working --- either because they have to or because they want to. At the other end of the spectrum are the frail elderly, or those who are benefiting from advances in medical science to live longer lives. Both have needs, and those needs vary greatly.

The Pennsylvania Department of Aging understands this challenge, and has initiated a series of hearings to update the State Plan on Aging, as federally required. Hearings will be held across the state through March to shape the future direction of services for older Pennsylvanians. It's an important process that most certainly will bring to bear new recommendations that this General Assembly will have to consider.

The Pennsylvania Health Care Association will be a part of that planning process. For the benefit of members, however, today I'd like to focus solely on long-term care --- specifically, the pressures facing our long-term care delivery system, especially as the baby boomer generation ages and begins to seek services.

Consider these facts: Congressional Quarterly has stated that nearly 70 percent of those turning 65 this year will eventually require some form of long-term care. The Urban Institute reported that long-term care is a leading cause of catastrophic out-of-pocket costs for families, and that few people have insurance coverage against the high cost of long-term care.

The bipartisan National Commission for Quality Long Term Care, headed by former U.S. Senator Bob Kerrey and former House Speaker Newt Gingrich, found 34 percent of Americans believe most long-term care is paid for by Medicare, 20 percent believe it is paid for by Medicaid, and 22 percent believe individuals and their families pay for most long-term care. Thirteen percent said they had no idea how long-term care is financed under the current system.

Another poll found 85 percent of Americans believe that if they need long-term care, that need will be met fully by Medicare, Medicaid or their existing health insurance. Some believed that seniors' long-term health-care needs would be provided by Social Security.

Unfortunately, they're all wrong: Social Security won't; Medicare and other health insurance programs won't; and state Medicaid programs can't, as they're already stretched beyond their limit. In fact, these three entitlement programs consumed nearly half of all federal spending in 2004. Social Security, Medicare and Medicaid accounted for more than \$1 trillion in the 2004 budget year, according to the Census Bureau. Overall federal spending was \$2.2 trillion.

Things will only get worse. In 1945, a decade after Social Security was created, there were 42 workers paying into the system for each retiree. Today, there are three. By 2030, there will barely be more than two workers paying payroll taxes for every retiree.

The case is clear: America is rapidly heading into a fiscal tsunami of elder care that dwarfs in magnitude the collective crises in Social Security, Medicare and Medicaid. These programs were designed in a different era to solve fundamentally different historical challenges. Simple reform isn't enough. We need to head in a new direction.

I have written at length about this issue over the last year --- not only from the perspective as President and CEO of PHCA whose mission is to ensure that those who need long-term care receive quality services in the most appropriate setting as they age, but also as a baby boomer myself who must plan for the long-term care needs of my own family.

The Pennsylvania General Assembly took an important step earlier this year by enacting the Long-Term Care Partnership Program. Now is the time to take additional steps, and I will propose several specific suggestions on what the Commonwealth of Pennsylvania and the federal government can do to facilitate and help us plan.

I will not propose new government programs. We cannot afford them. I will propose legislative initiatives that will use market-based mechanisms to enable individuals to take responsibility for their own planning and will enable compounding interest and time to work for them, not against them.

The basic idea of each of the proposals is to develop new and dynamic methods that help Americans take more control of their economic and health-care futures. The private sector must be the engine driving this change.

Specifically, the General Assembly could:

- Enact legislation that would allow people to deduct the purchase of long-term care insurance “above-the-line” on their state and tax forms --- that is, deduct it directly from their total income before taxes, in most cases decreasing their tax bill.
- Enact legislation that would provide limited tax credits to those (with incomes below a certain level) who provide services to family members with long-term care needs.
- Enact legislation that would allow individuals to access their life insurance for long-term care in the form of an accelerated death benefit. In 2001, 69 percent of American families had some form of life insurance, and now it may make some sense to convert at least a portion of this life insurance to long-term care insurance.
- Enact legislation that would allow the implementation in Pennsylvania of a “reverse mortgage” concept --- a loan seniors could take out against the equity value of their homes --- to help pay for long-term care services.

And because this issue is much larger than just Pennsylvania, there are also several possible ways in which the U.S. Congress might act. For example, they could:

- Establish a new voluntary federal program, similar to Social Security, in which payroll deductions are deposited in a personal long-term care savings account.
- Let every American have access to a program, currently available only for federal employees, that allows purchase of long-term care insurance at significantly reduced group rates.
- Establish a new “Part E for Medicare” that would require the federal government to accept responsibility for all long-term care services for “dually-eligible” seniors (those on both Medicare and Medicaid). Although Part E would be primarily funded by the federal government, it would begin to stabilize the long-term care system, while market-based solutions begin to take hold.
- Enact legislation, similar to that proposed for the state, that would allow people to deduct the purchase of long-term care insurance “above-the-line” on their federal tax forms --- that is, deduct it directly from their total income before taxes, in most cases decreasing their tax bill.
- Similarly, as in the proposal above for the state, enact legislation that would provide limited tax credits to those (with incomes below a certain level) who provide services to family members with long-term care needs.
- Allow people to deduct their long-term care insurance premiums under cafeteria plans and flexible spending arrangements along with child care, health care, dental care, life insurance and disability; currently, they can’t.

These are just some of the initiatives we should consider to help us solve the social and fiscal challenges of providing long-term care for baby boomers. I’d welcome the opportunity to discuss any one of these issues with you in depth.

Several of the nation’s leading long-term care organizations --- the American Health Care Association (AHCA), the Alliance for Quality Nursing Home Care (the Alliance) and the National Center for Assisted Living (NCAL) --- have outlined a plan to bring greater private resources into the system.

That plan, unveiled earlier this month at the National Press Club, would establish new financial products --- including improved reverse mortgages, federally endorsed long-term care insurance products and new long-term care savings accounts --- that give consumers more control and greater security in obtaining and paying for long-term care. Some of their ideas mirror what I proposed earlier.

The point is clear: With Social Security, Medicare and Medicaid so overwhelmed, and with the burden on these programs expected to grow as our baby boomers age, the solution to our long-term care crisis should not --- and cannot --- be just another costly government-funded mandate. The system today is far too complex, and the population we’re trying to serve too diverse.

In addition to the legislative solutions, last year I suggested that President George W. Bush and the Congress name a bipartisan national commission to address long-term care reform. The last time our nation seized the opportunity to address the shortcomings of a key retirement pillar was the landmark 1983 National Commission on Social Security Reform, established by President Ronald Reagan. In a sign of true bipartisanship, President Bush could do this now so that the commission could do its work and present it to the new president.

Fortunately, we are moving forward in Pennsylvania, and this hearing is an important first step. Let's hope other states and the U.S. Congress follow in your footsteps.

Given the magnitude of this challenge, you would think our presidential candidates would seize on this emerging crisis, especially since it affects such a large bloc of the American voting public; but they haven't.

In October, PHCA conducted a nonpartisan analysis that examined key words and phrases in the issues and speeches sections common to each presidential candidate's Web site. No one was really talking about the elephant --- or donkey, depending on your affiliation --- in the room. Although all the candidates discuss Social Security, Medicare and Medicaid, they all ignored the bigger issue --- how the nation's long-term care infrastructure will be maintained and funded.

I would hope that as the presidential candidates begin to focus on Pennsylvania this spring, that our legislators, our governor and all Pennsylvanians will ask them to address this issue. It is too big to ignore --- especially in Pennsylvania.

Let me close by again commending all of you for convening this very timely hearing and taking a serious look at the issues surrounding a baby boomer generation entering retirement. This really is one of our most significant domestic priorities, and I look forward to working with all of you to ensure our residents receive the care they need.

Chairman Mundy, Chairman Hennessey and members of the Committee: Thank you for your time and attention. I would be happy to answer any questions you have at this time.

###

