# Interaction of Insurance, Private Resources, and Medicaid: Assessing the Evidence

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# Key questions about the interaction of Medicaid, private resources, and private insurance

- You asked for comments on the mismatch of needs and resources for long-term care among the elderly, asset transfers, Medicaid spend down, and the effect of Medicaid on savings and private insurance purchase.
- In brief, the research evidence on Medicaid LTC and the private resources of older adults shows that:
  - Low lifetime earners and low-income older adults are at significantly greater risk of disability and need for supportive services than are higher income adults.
  - Medicaid overwhelmingly provides LTC services to people who are very poor or who have very modest incomes and assets.
  - Medicaid spend down is not uncommon among older adults, but the spend down population has very modest income and resources before they spend down and become eligible for Medicaid
  - Asset transfers occur infrequently
  - The evidence that Medicaid crowds out private insurance is thin

# The overwhelming majority of individuals receiving Medicaid-financed long-term care lack the resources to pay for their care

- Older adults who receive Medicaid LTC have very low income and assets
  - GAO 2007: in a review of 540 nursing home applications, over 90% of applicants had non-housing resources of $30,000 or less, and 85% had annual incomes of $20,000 or less
  - Wiener and colleagues 2013, SCAN Foundation: older adults who end up on Medicaid start out with limited resources and have even less when they transition to Medicaid
- Relatively few who ever received Medicaid LTC (between 1993 and 2006) earned enough in their working years to pay for care at older ages (Rich Johnson and Gordon Mermin, ASPE 2008)
  - Those with any Medicaid home care use are disproportionately at the bottom of the income and wealth distributions for their age group. 45% in the bottom income quintile. (For all Medicaid home care users: median income in 1992 = $10,899; median wealth = $3,376)
  - They also are disproportionately in the bottom of the lifetime earnings distribution (median household-size-adjusted lifetime earnings: $32,357): 63% were in the bottom quintile of the lifetime earnings distribution; 85% were in the bottom two quintiles; only 2.7% were in the top quintile
  - Similar findings for older adults who received any Medicaid-financed nursing home care: 60% were in the bottom 2 quintiles of the lifetime earnings distribution; 8.2% in top quintile

# There is little basis for the assertion that people with substantial incomes or assets are becoming eligible for Medicaid by improperly transferring their assets

- GAO 2007
  - Few older adults transfer assets before applying for Medicaid; amounts transferred are small
  - 10 percent of approved Medicaid applicants transferred assets, median amount of $15,152; average length of penalty period imposed was 6 months
- Weiner 2013
  - Older adults who spend down to Medicaid are less likely make transfers to children and grandchildren than those who do not transition to Medicaid
- Liu and Waidmann 2006
  - Few asset transfers among Medicaid nursing home residents, amounts transferred are small
  - It is the subgroup of nursing home residents who never become eligible for Medicaid that practices asset transfers extensively and transfers large amounts
  - Aggressive recovery of all cases of transferred assets would recover only 1 percent of Medicaid long-term care spending (and this estimate ignores administrative costs).

# The evidence that Medicaid competes with private insurance is thin

- Only a small share of older Americans have private long-term care insurance
- Even among older adults in the top wealth quartile, only a quarter have it
- A few studies emphasize the Medicaid crowd out explanation. But the evidence is thin.
  - One key study (Brown and Finkelstein) is an assumption-driven simulation – changing the assumptions would change the result.
  - There are a few empirical (data-driven) studies but findings of those studies are mixed. One study (Sloan and Norton) finds no effect of availability and generosity of Medicaid on insurance take up for adults in their 50s and weak evidence that Medicaid affected insurance purchases of adults aged 70 and older.

# There may be some “crowd out” associated with Medicaid’s LTC safety net, but it’s small

- We shouldn’t get too carried away by anecdotal reports that Medicaid is a middle-class entitlement or allows even the wealthy to shelter their assets.
- Available evidence suggests that very low- and modest-income people receive Medicaid LTC. Asset transfers are inconsequential.
- There’s not a lot of interaction between Medicaid and private insurance or savings because there is little overlap between Medicaid’s intended beneficiaries and the population that can purchase unsubsidized private long-term care insurance or self-insure.
- Further tightening Medicaid eligibility is unlikely to have a material impact on program spending or insurance purchases, but would make an already limited safety net even stingier.