New York Finds a Way

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The Bush administration wants the states to behave more like New York when it comes to containing Medicaid costs by encouraging seniors to purchase their own long-term care insurance. New York is one of five states - the others are California, Connecticut, Illinois, and Indiana - that participates in a "partnership program" that allows a buyer of long-term care insurance to protect his or her assets and qualify for Medicaid when the policy runs out.

In California, Connecticut, and Illinois, the asset protection works on a dollar-for-dollar basis. For every dollar of coverage your policy provides, that's an extra dollar you're allowed to retain while still qualifying for Medicaid. In New York, the program is even more generous. If you buy a long-term care insurance policy under the New York State Partnership for Long-Term Care, after the policy expires you can qualify for Medicaid coverage no matter what your level of assets. In Indiana, asset protection varies in different cases.

The idea is to encourage consumers to behave responsibly instead of "spending down" all their assets to qualify for Medicaid. It's a worthy idea, but New York has seen little benefit from the program.

No other state in the union keeps so many seniors in nursing homes on the public dole. Nationally, fewer than 70% of nursing-home patients are on Medicaid. In New York, it's 86% - which means that fewer than 15% of New Yorkers receiving nursing-home care pay for the service themselves. It's the cost-saving measures of other states that pull down the national average.

Elder-care costs account for about half of New York's total Medicaid budget. While the state's per-patient expenditure is about $11,000, the Medicaid health care plans for poor recipients cost less than $6,000. It's the cost of nursing-home care that's pushing up Medicaid spending. "New York is exceptionally generous," the former lieutenant governor, Betsy McCaughey, told us. The state pays more - and for more services - than the rest of the nation. According to a study by the Urban Institute, the average Medicaid long-term care expenditure per elderly beneficiary ranges from $14,000 in New York to less than $5,000 in South Carolina and other states.

And it's easier to qualify for Medicaid in New York, where it's become a large middle-class entitlement program. Medicaid was originally designed as a welfare program to help the poor pay for medical care, but now it's expanded to the point where "long-term care is an entitlement to be paid for out of public dollars," as the chairman of the Governor's Working Group on Healthcare, Stephen Berger, put it to us. So instead of purchasing long-term care insurance, many New Yorkers finance long-term care through spousal refusal or a disposal of assets in order to qualify for Medicaid. There's a whole discipline of "Elder Law" devoted to these tricks.

"We have to decide for whom the government is going to provide health care," says Mr. Berger. "Right now, we've decided to have the widest level of participation and to allow more and more people into the program: 'We will help you find a way' - that's what we have in New York State today."

So it's become easier and easier to qualify for Medicaid, and politicians have been unwilling to close the loopholes. All those Medicaid recipients, after all, are voters. The political problem is made worse because New York is the only state in the union with a local share of Medicaid costs. So for every dollar of benefits state lawmakers hand out, they only directly charge taxpayers 25 cents. So Albany's politicians get all the credit for the benefits, but only a little bit of blame for the costs.

But since the local costs are calculated county by county, the burden on local property taxpayers has become truly outrageous in those regions upstate where the population is aging. "You've got counties upstate where all the property taxes go to support Medicaid," Mr. Berger told us. "As upstate New York ages rapidly, the remaining property owners are being taxed out of their life savings." The Governor's Working Group on Healthcare suggested last January that the state assume the local share of Medicaid costs.

The working group also recommended strengthening the eligibility requirements for long-term care by eliminating spousal refusal and increasing the penalties on individuals who transfer assets in order to qualify for Medicaid in nursing homes. Another problem, says Mr. Berger of the long-term care industry, is that "the way we finance it does not encourage risk. It is a business where supply creates demand."

Consumers aren't really driving the growth of Medicaid spending. "The providers have all the political clout and keep generating more programs to support their institutions. It's an extraordinarily expensive program that is hard to justify when looking at other models across the country. And it doesn't lead to a higher quality of medical care." But what about the partnership program? "The partnership program is wonderful," Mr. Berger told us, "but it has too few people in it to make a difference." And why should people participate? Medicaid is free.

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