

WILL BOOMERS BUST THE BUDGET?

10 YEAR PROJECTION: *Unprecedented size and chronic illness of California's boomers will overwhelm state's current capacity to meet growing long-term care needs*

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OVERVIEW

As California's population ages over the next 10 years, it will face significant infrastructure and fiscal challenges. Gains in life expectancy, combined with the aging baby boomer generation, will cause California's elderly population to expand an estimated 44 percent by 2023. Demand for long-term care services and support, consequently, is expected to grow—particularly since those approaching retirement age report poorer health than those born before them.

California currently lacks the capacity to meet the future needs of its aging population. Projected increases in demand for long-term care suggest that California seniors either will not be able to obtain the care they need or they will face delays in trying to obtain such care.

Just as demand for long-term care is expected to increase, so are aggregate costs for both institutional and non-institutional care. Continued increases in state spending for long-term care could soon overshadow some of the state's competing priorities.

Additionally, individuals with long-term care needs may increasingly need to rely upon family members for care or receive no care at all if their needs cannot be supported by the state.



2023: UNPRECEDENTED 44 PERCENT JUMP IN SENIORS

California is the most populous state in the union, home to 12 percent of the country's total population. As such, California is also home to the largest number of elderly (age 65 and older) people in the United States, representing more than 11 percent of California's total population in 2010.

Over the next decade, California's elderly population is expected to grow significantly due to the aging baby boom generation—the population born from 1946 to 1964.

Between 2013 and 2023, California's elderly population is projected to expand 44 percent in size (see Figure 1), growing from approximately

4.8 million to nearly 6.9 million individuals. In the previous decade (2000-2010), the number of people age 65 and older grew only 18 percent.¹

The population age 85 and older—those who are most likely to need long-term care services and supports—is expected to expand its size by 24 percent between 2013 and 2023, growing from 650,000 to approximately 803,000.² Meanwhile, the general population is expected to increase significantly more slowly, increasing at a rate of only 10 percent (from 38.3 million to 42.0 million individuals).

Although California has one of the youngest populations in the union (ranking 6th by median age and 2nd by proportion of population ages 18-44), its residents are aging more rapidly than the rest of the country as a whole.³

By 2040, California's population aged 65 and older will comprise a slightly greater proportion of its total population (21 percent) as compared to the nation (20 percent).⁴

Not only is California's population aging rapidly, its population lives longer than the nation on average. California has the third longest life expectancy in the country—an average life span of 80.4 years—surpassed only by Hawaii and Minnesota.⁵ A longer life expectancy is associated with a greater need for long-term care services and supports.⁵

CALIFORNIA'S AGING POPULATION HAS GROWING NEED FOR LONG-TERM CARE

Due to increases in life expectancy and both the absolute and relative growth of the elderly population, the demand for institutional long-term care is expected to increase in California in the upcoming decades.⁶

The total number of residents in institutional care is projected to rise from approximately 102,000 individuals in 2013 to 134,000 individuals by 2023 (see Figure 2). The growth in the population age 65-84 accounts for the most significant portion of this increase, as nursing home demand among this population subgroup is expected to increase 47 percent, in comparison to the population age 85 and older, whose demand is projected to increase by 24 percent. A minimal (8 percent) increase in demand is expected among the non-elderly population (under age 65).

WHAT IS LONG-TERM CARE?

Long-term care (LTC) is support for individuals with chronic illnesses or disabilities. It is the help that people need when physical or mental illness impairs their capacity to perform typical tasks of everyday life (e.g., bathing, transferring, eating). Long-term care can be provided at home, in the community, in assisted living or in a nursing home.

In 2010, slightly less than half (43 percent) of public funding for LTC in California was spent on institutional care, most (82 percent) of which was provided in a nursing home, although institutional care was also provided in intermediate care and mental health facilities.

Non-institutional care includes a variety of different types of services but typically includes care provided within one's home or in the community.

California's current infrastructure will not be able to support sharp rises in demand, given that institutional care facilities operate near capacity at 85 percent occupancy.⁷ Some of the consequences of such rapid growth include delays in receipt of care or care needs that go unmet. In one of California's largest cities—San Francisco—widespread waiting lists for nursing homes have already been reported.⁸

Increases in demand for non-institutional care are also likely to occur in the near future. California, like much of the nation, is shifting away from institutional care toward greater participation in non-institutional care.^{9,10} Over the course of a six-year time span, the number of participants in Medi-Cal's HCBS programs increased 45 percent in California—from more than 414,000 participants in 2002 to nearly 600,000 participants by 2008.¹¹

Given that the majority of participants (58%) in Medi-Cal's largest HCBS program (In-Home Supportive Services) was 65 or older in 2011, demand for HCBS is expected to rise as the California population ages.^{12,13}

Future rapid increases in demand for HCBS could result in substantial delays in receipt of services if the delivery of services is not changed. Limitations that can create waiting lists for applicants include a limited number of staff assigned to operate HCBS programs and a limited number of appropriate providers, particularly in rural areas. Although no official data has been published that documents time between program application and service enrollment, anecdotal reports suggest time lags already exist between application and enrollment in HCBS programs.¹⁴

NOT ONLY IS CALIFORNIA'S POPULATION AGING RAPIDLY, ITS POPULATION LIVES LONGER THAN THE NATION ON AVERAGE

RISING COSTS OF LONG-TERM CARE WILL INCREASINGLY IMPACT THE STATE

Long-term care is expensive, whether it is provided in a nursing home or in the privacy of one's home. Out of the \$40.8 billion California spent on Medi-Cal in 2009, nearly one-third (\$12.8 billion) was devoted to long-term care, including \$4.4 billion for nursing home care and \$5.2 billion for home health and personal care.¹⁰

A significant component of these costs can be attributed to the large prevalence of dementia in the country. Estimates place dementia as one of the most costly diseases to society—on par with health care expenditures for heart disease and significantly higher than the direct health care expenditures for cancer.¹⁵ The cost associated with long-term care comprises most of the costs of dementia, suggesting significant increases in long-term care expenditures as the prevalence of older adults with dementia grows.

Three different projections for future public expenditures for long-term care are depicted in Figure 3. The high cost growth scenario includes real per capita GDP growth (1.7 percent) plus two percent growth above real per capita GDP (i.e., 3.7 percent), representing historic growth in health care spending.

LONG-TERM CARE COSTS COULD INCREASE 88 PERCENT OVER THE NEXT 10 YEARS—FROM \$6.6 BILLION IN 2013 TO \$12.4 BILLION IN 2023

Under this scenario, the total cost of care is projected to increase 88 percent in the next decade—from an estimated \$6.6 billion in 2013 to \$12.4 billion in 2023. In the unlikely scenario that California were able to hold spending

at zero per capita cost growth, the state could still expect to see a 9 percent increase in total costs (from \$6.6 billion in 2013 to \$7.2 billion in 2023), simply due to the aging population. In the scenario in which per capita cost growth rates were assumed to increase at the level of real per capita GDP growth (i.e., 1.7 percent), costs could be expected to increase 41 percent over the next ten years—from \$6.6 billion in 2013 to \$9.2 billion in 2023.

Given recent trends, the cost of non-institutional care will grow faster than the highest cost growth scenario for institutional care. Between 2000 and 2009, California's public spending on non-institutional care rose 500 percent+ (from \$1.2 to \$7.3 billion).¹⁶ This rapid growth is expected to continue given the aging population and the growing demand for home and community-based services over institutional care.¹⁰

Although HCBS were intended to delay or avoid the high costs of institutional care, evidence suggests that savings are minimal. Some analyses show that savings occur only when the number of nursing home residents is reduced, which can take years to occur.¹⁷ Other evidence suggests that HCBS can actually increase costs due to a "woodwork effect,"

in which individuals take advantage of HCBS when they would not otherwise be willing to enter a nursing home.¹⁸

Although patient satisfaction is significantly improved with the usage of HCBS, greater use of HCBS over institutional

care does not necessarily imply cost savings, at least in the short term.¹⁹

SENIOR PREFERENCES AND HEALTH DRIVE LTC COSTS

Future demand for and costs of long-term care are somewhat dependent upon the age and health status of the population. While it once appeared that disability was declining among the elderly, evidence suggests that the baby boom generation is in worse health than those born before them.

THE RAPID GROWTH OF OBESITY AND RELATED HEALTH PROBLEMS SUGGESTS INCREASED MORBIDITY AMONG BOOMERS

Trends indicate that more individuals in their fifties require help with personal care than those born before them.²⁰

Dementia is also a large, growing and costly ailment among older adults in the United States. Calculations from a recent national study showed that the aging of the population will result in an increase of nearly 80 percent in total societal costs per adult by 2040, most (75-84 percent) of which is attributed to the cost for institutional and home-based long term care.¹⁵

Not only has the number of individuals with disability increased, those identifying themselves in poor health also appear to be increasing. An increase in the prevalence of baby boomers indicating their health was in poor/fair health condition was reported in the past decade.²⁰

Some suggest this trend may reflect societal changes in how people think about their health. For example, members of the baby boom generation may have greater expectations about their health than older cohorts and may be more critical in their assessments of their health. Still, the rapid growth of obesity and related health problems suggests

¹⁰ Not all of this increase represents real "net" growth in public funding. Rather, some unknown percentage is due to a "refinancing" of programs previously funded with state revenues.

increased morbidity among the baby boom generation's health expectations compared to preceding elderly cohorts. (Figure 4).²⁰

For example, one study states that 51 percent of adults in the U.S. will be obese by 2030, with nine percent of the population being severely obese.²¹ Nearly 60 percent of California's adults are overweight or obese, costing the state \$41.2 billion in both health care costs and costs associated with lost productivity. Overweight, obesity and physical inactivity are major risk factors for many health conditions related to premature illness, disability and death—including coronary heart disease, type 2 diabetes, some forms of cancer and stroke.²²

California already has the fourth highest disability rate in the country for individuals over age 65; an expansion of morbidity among its elderly population will require even more individuals to rely on long-term care for longer periods of time.²³

LTC DEMAND IMPACTS FAMILIES, BUSINESSES AND GOVERNMENT

As the population ages, the increasing need for long-term care services will profoundly impact families, organizations and all levels of government. Most (88 percent) of long-term care is provided by family and friends who give care without compensation, and many California residents struggle with paying the out-of-pocket costs to fund long-term care services and supports for themselves or a loved one.^{24, 25}

In 2011, one in five U.S. residents were in families who expressed difficulty paying medical bills. Even among the elderly (who are likely eligible for Medicare), nearly one-fifth (19 percent) of residents between the ages 65-74 reported that they faced financial burden from medical care.²⁶

Although the Affordable Care Act (ACA) was created to ensure that Americans are able to obtain quality, affordable health care coverage, it will not alleviate

the fiscal challenges individuals and families face in paying for long-term care. In fact, some elderly will see their insurance premiums rise under implementation of the ACA.²⁷

The provisions that benefit seniors most significantly are the closing of the donut hole in Medicare's Part D (prescription drug benefits) program and the elimination of cost-sharing for Medicare-covered preventive services.²⁷ Neither of these provisions, nor any other part of the ACA, however, will directly help reduce out-of-pocket expenditures for long-term care for individuals and families, as the ACA is targeted primarily toward improving the affordability of care for the non-elderly population.

Both public and private organizations can also expect challenges in dealing with an aging population with growing long-term care needs. Employers may be faced with the challenge of how to manage employees who increasingly need to leave early, arrive late or miss work in order to attend to an ailing family member. Employers may also experience employees cutting back on work hours or stopping work entirely due to caregiving requirements, as most (69 percent) caregivers report having to make these types of work accommodations.²⁸

Further, studies report that caregivers report higher levels of mental and physical health problems than non-caregivers.²⁹ Reduced productivity is another anticipated outcome for employees who, because they are also providing long-term care to loved ones, miss work and suffer from poor health.

The state of California will face fiscal pressures from increased financial strain placed on Medicaid, in particular. In 2010-2011, California spent an estimated \$12.8 billion, or 15 percent,

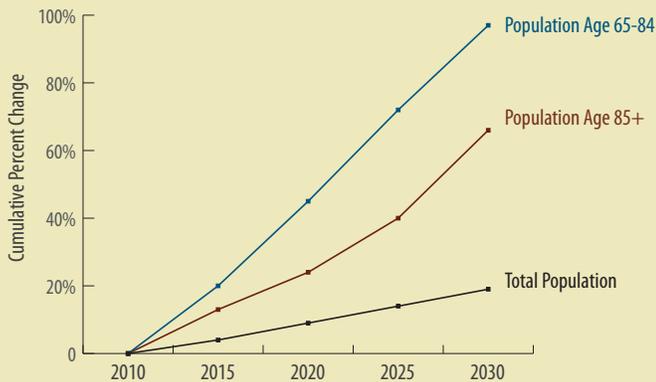
of its General Fund on Medi-Cal.³⁰ Greater pressure for increased Medicaid spending as a consequence of increased long-term care needs could lead to reduced provider payment rates, reduced benefits and restricted eligibility.³¹

THE STATE'S SPENDING FOR LTC MAY INCREASINGLY CUT INTO SPENDING ON OTHER STATE PRIORITIES, SUCH AS EDUCATION, TRANSPORTATION AND CORRECTIONS

Increased public spending for long-term care could potentially crowd out other programs and initiatives funded by the state as well. Medi-Cal's spending on long-term care in 2009-2010 comprised approximately 10 percent of the state's total budget, and continued growth in the state's spending for long-term care may increasingly cut into spending on other state priorities, such as education, transportation and corrections.^{10, 32}

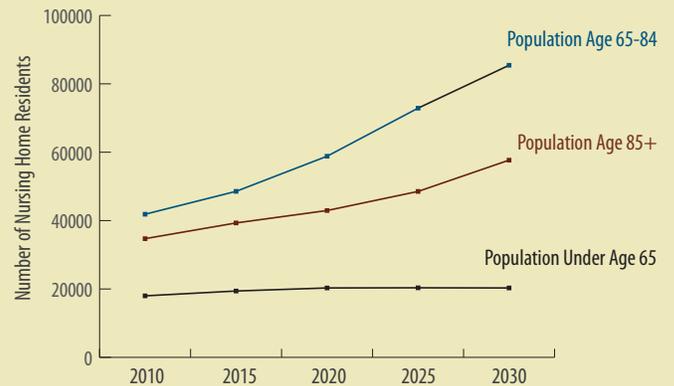
In order to meet the simultaneous increases in demand for LTC and other program areas, the state will be faced with making difficult fiscal trade-offs in the near future.³³

FIGURE 1: PROJECTED PERCENT GROWTH IN CALIFORNIA'S POPULATION, 2010-2030



Source: State of California, Department of Finance, Interim Population Projections for California and Its Counties 2010-2050, Sacramento, California, May 2012. The California Department of Health Services provided the vital statistics (births and deaths) used in this projection series. The 2000 and 2010 Censuses of Population, U.S. Census Bureau, serve as benchmarks for total population and age structure.

FIGURE 2: PROJECTED DEMAND FOR INSTITUTIONAL CARE IN CALIFORNIA, 2010-2030



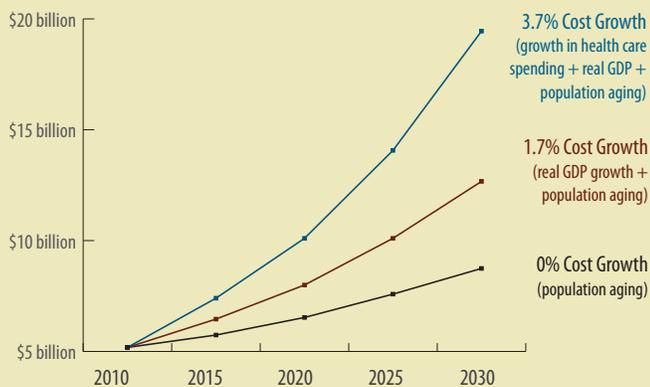
Notes:

(1) Included in the definitions of institutionalized care are skilled nursing facilities, intermediate care facilities, intermediate care facilities/developmentally disabled and congregate living health facilities.

(2) Estimates are based upon institutionalization rates in 2010 and projected forward according to increases in California's aging population. A variety of factors (e.g., changes in health care delivery, changes in public and private funding, etc.) could potentially impact these estimates, which have not been taken into account.

Source: RAND California, "Long Term Care Statistics: 2002-2010," Office of Statewide Health Planning and Development. Accessed July 31, 2012. <<http://ca.rand.org/stats/health/longtermcare.html>>

FIGURE 3: PROJECTED INSTITUTIONAL CARE EXPENDITURES IN CALIFORNIA, 2010-2030



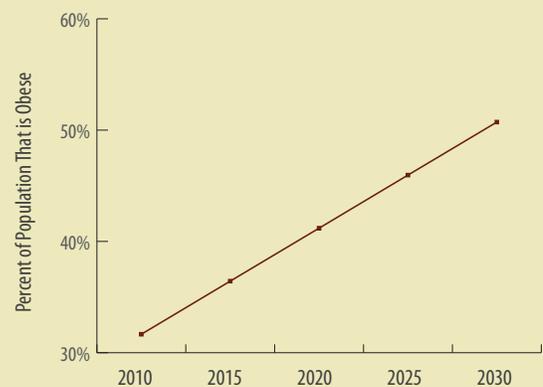
Notes:

(1) Costs include nursing home services, mental health facility services and intermediate care facilities for developmentally disabled people.

(2) 0% cost growth reflects growth of the elderly population, leaving real per capita growth unchanged; 1.7% cost growth allows costs to increase at the level of real per capita GDP; 3.7% growth assumes cost growth increases 2% faster than real GDP per capita, reflecting historical health care growth rates, as reported by Chernew et al. 2009.³³ We do not add in Chernew's additional 0.43 demographic adjustment, as it has already been incorporated into our age projections.

Source: Medicaid long term services and supports data from 2005-2010 serve as benchmarks for projections for 2010-2030. Dollar amounts have been adjusted to 2012 dollars. <www.hcbs.org/files/208/10395/2011LTSSExp%20enditures-final.pdf>

FIGURE 4: U.S. PROJECTED PREVALENCE OF OBESITY, 2010-2030



Source: Finkelstein E et al. "Obesity and Severe Obesity Forecasts Through 2030," *Am J Prev Med* 2012; 42(6):563-570.

INFORMATION ON THE STUDY

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The Health Policy and Management (HPM) Division addresses the rapid changes occurring in the organization, financing and administration of public health and medical care systems. The division trains creative leaders and policy analysts to understand the complexity and dynamics of the health system and its impact on the health of the population. The dissemination of new knowledge contributes to efforts to improve the availability, affordability and effectiveness of health services and develop policies that reinforce these objectives.

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The Partnership offers an honest, straightforward look at the facts, the costs and the emotional challenges of long-term care.

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