Legislative Auditor

OVERVIEW

FEASIBILITY STUDY OF EARMARKING TAX REVENUES FOR A LONG-TERM CARE INSURANCE PROGRAM

Honolulu, Hawaii

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Summary

The financing of long-term care is a challenge facing state governments throughout the United States. The catastrophic expenses of long-term care quickly deplete personal assets so that many people have no recourse but to turn to Medicaid for help. Concern for the growing burden placed on the Medicaid budget led the Legislature to consider different ways to finance long-term care. One alternative is an insurance program financed by the state and supported by earmarking the excise taxes collected on health care services. The auditor was asked to examine the feasibility of this proposal.

The underlying principle of earmarking tax revenues, called the benefit theory, says that those who benefit from a program should support it. The motor fuels tax, for example, is earmarked to support highway construction and maintenance. Earmarking for human service programs has become more prevalent, particularly in states hoping to obtain additional revenues from lotteries or casinos. Only two states, Hawaii and New Mexico, tax almost all health care services.

Long-term care insurance was intended to protect people's personal assets against the catastrophic expenses of long-term care. Most policies are based upon a "medical model" and cover only the skilled care provided in institutional settings. Studies have shown, however, that patients today do not need expensive institutional care. They require help with the activities of daily living that enable them to main independent lifestyles. These personal and social services are not covered in most long-term care policies. Therefore, the actual use of insurance to cover long-term expenses has been minimal--less than one percent of these expenses has been paid for by private insurance.

FINDINGS

Earmarking the tax revenues collected on health care services to support a program for long-term care insurance is not justifiable.

The proposal does not meet the primary principle of earmarking--that a clear relationship should exist between those who pay taxes on health care and those who would receive the benefits of long-term care insurance. Many tax policy analysts consider the tax on health care regressive because it burdens those who need these services and does not take into account their ability to pay. To many, the tax is onerous because it is imposed upon services essential to individual well-being. Finally, long-term care insurance has not yet been shown to be an effective financing mechanism.

CONCLUSION

Earmarking general excise tax revenues collected on health care services to finance a long-term care insurance program is not feasible. Tax policy and principles of earmarking do not support designating a regressive tax to finance a program in which benefits are not directly received by those who support it. The concerns of experts indicate that no one knows whether long-term care insurance will be effective in protecting personal assets and relieving the burden now placed on Medicaid.

Further consideration of financing long-term care through insurance should therefore await more comprehensive study, such as that being conducted by the Executive Office on Aging.