At-home or Nursing-Home for Long Term Care [Part I]

Cost and Duration of Long-Term Care at Home

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This is the first post in an exclusive four part series for the ME-P titled: “At-Home or Nursing Home Care for Long Term Care.”

Remaining at Home

It is not surprisingly, eighty-five percent of married elders prefer to remain at home instead of moving to a nursing home or some other senior care facility. Staying at home is easier, more comfortable, and less traumatic. Home care statistics are limited, but three years is the estimated average number of years that elders will require custodial care services. This estimate also may combine home care followed by nursing home care. And, the anecdotal healthcare experience of two authors [DEM and HRH] confirms this period length.

Incremental LT Cost Approach

Quantifying the annual incremental costs of LTC home custodial services is difficult. Today, a high percentage of home care services are provided by unpaid family members, friends, or volunteer organizations. In the future, however, there will be fewer available unpaid caregivers, and more elders will have to pay for home custodial care.

Because of this potential shortage of caregivers, new business opportunities are springing up and, as usual, let the buyer beware. Many of these new businesses, for a fee, contract with a family that needs home LTC for a family member. Upon contract, the new LTC business owner begins a search for a candidate caregiver who will live in your house and care for your parent or spouse. Often the in-home caregivers have difficulty speaking the language or may not be familiar with local customs.

Furthermore, many of them wish to be paid in cash rather than by check. As you might imagine, background checks, tax compliance and other legal considerations are of utmost importance. Career education and career experience are also very important. Be sure that if you look for such a caregiver, you must exercise thorough due diligence so that your loved one will be cared for properly.

LTC Costs Vary Widely

LTC home care cost estimates vary widely by location and type of service. At present, the average annual cost for a live-in, full-time aide in the United States (especially if part-time help to relieve a full-time aide is added) is estimated at $40,000, the same as the estimated cost of staying at a nursing home for a year. If living expenses are added to costs for custodial aides, LTC home care costs can be more expensive than nursing home costs.

For three shifts of paid LTC custodial services, home care costs may exceed $100,000 annually; more than triple the current estimated cost for nursing home care. These numbers should not be surprising. In a nursing home environment, one caregiver may be able to provide care for multiple patient/residents. This reduces the cost per patient. In your private home, your personal caregiver can give only care to a single patient.

Custodial Aide Costs

Costs for custodial aides in the fragmented, rapidly expanding, competitive home care markets have increased. Market dynamics have created a pent-up demand for care, and inadequate paid caregiver supplies are driving up the cost of employment. Workforce dynamics have created a pent-up demand for care, and inadequate paid caregiver supplies are driving up the cost of employment...
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Professor David Marcinko
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care industry may increase at a faster rate than the Consumer Price Index [CPI].
Employed aides will replace family caregivers. The Bureau of Labor Statistics
[BLS] indicates that jobs for home health aides, human service workers, and
personal and home care aides are expected to grow faster than any other
industry in terms of total jobs.

In the next decade, there will be more than 2 million home care jobs, and they will
become a larger component of total gross domestic product expenditures. Using
an estimated three-year home care requirement and current estimated costs, and
allowing for 15 years of inflation at 5 percent, $225,000 per person is a
reasonable estimate to use for financial planning purposes.

Assessment

However, in some metropolitan or suburban areas, such as New York City, the
cost should be increased by at least 100 percent. Of course, three years of
required care is an estimate. About one-third of the people who require nursing
home care will need it for more than three years. Presumably, nursing home care
will be preceded by home care. Moreover, only one full-time aide was assumed.
Some elders also will require additional part-time help.

And so, your thoughts and comments on this  Medical Executive-Post, which
represents the first in a series of four parts on: At Home or Nursing Home Care
for Long Term Care, are appreciated. Comments from physicians and LTC
insurance agents are especially valued.

Conclusion

Feel free to review our top-left column, and top-right sidebar materials, links, URLs and
related websites, too. Then, subscribe to the ME-P. It is fast, free and secure.

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Alert and Oriented
Many pundits posit that real health reform will entail quality, affordable coverage for all Americans and a restructured health care delivery system. And, a growing number of health industry leaders understand they must reorganize their business models to realize these goals.

Health CEOs for Reform

Recognizing that business as usual is no longer a sustainable model in health care, a diverse coalition of six CEOs from across the health care sector have come together to form Health CEOs for Health Reform [HC4HR]. The coalition, facilitated by the New America Foundation, brings together health industry leaders with a unique willingness to transform their business models to create a more sustainable health system.

Guiding Principles

According the its website, the group's members are committed to moving past broad policy concepts toward detailed blueprints that reconcile the legislative goals and principles of lawmakers with the operational realities of our health care system. The coalition is built on the following three principles:

1. Health reform is an urgent priority for our nation and should not be postponed.
2. Meaningful health reform entails quality, affordable health care coverage for all and delivery system reform. This will require all stakeholders moving away from “business as usual.”
A more sustainable health system will require all health care stakeholders to offer and accept changes to their business models as part of a catalytic package that will better serve everyone.

Assessment

The CEOs announced the formation of HC4HR in an event at the National Press Club. Senator Sheldon Whitehouse [D-RI] provided a Congressional keynote for the event, stressing the importance of health reform in our national agenda and applauding the leadership shown by HC4HR.

Link: [http://www.newamerica.net/events/2008/ceos_health_reform](http://www.newamerica.net/events/2008/ceos_health_reform)

Conclusion

And so, your thoughts and comments on this Medical Executive-Post are appreciated. Do we really need another group to discuss healthcare reform? We all know the problems of divergent stakeholder interest. Is this the time for solutions, or another group reframing the problem?

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Managed Care IBNR Claims

Posted on February 2, 2009 by Editor

Managed Care Organizations (MCOs) that accept capitated risk contracts face a potentially significant tax burden for Incurred but Not Reported (IBNR) claims. It is not uncommon that IBNR claims at the end of a reporting period equal one to two months premiums for MCOs under a fee-for-service model. The Internal Revenue Service (IRS) has taken a very strong position relative to the deductibility of these claims by saying that an MCO cannot deduct such losses if they are based on estimates.

Incurred But Not Reported [IBNR] Claims

IBNR is a term that refers to the costs associated with a medical service that has been provided, but for which the carrier has not yet received a claim. The carrier to account for estimated liability based on studies of prior lags in claim submission records IBNR reserves. In capitated contracts, MCOs are responsible
The “Medical Executive-Post” is about connecting doctors, health care executives and modern consulting advisors. It’s about free-enterprise, business, practice, policy, personal financial planning and wealth building capitalism. We have an attitude that’s independent, outspoken, intelligent and so Next-Gen; often edgy, usually controversial. And, our consultants “got fly”, just like U. Read it! Write it! Post it! “Medical Executive-Post”. Call or email us for your FREE advertising and sales consultation TODAY [770.448.0769].

Why a Problem for HMO’s/MCOs

Section 809(d)(1) of the Code provides that, for purposes of determining the gain and loss from operations, a insurance company shall be allowed a deduction for all claims and benefits accrued, and all losses incurred (whether or not ascertained), during the taxable year on insurance and annuity contracts. Section 8.809-5(a) (1) of the Income Tax Regulations provides that the term “losses incurred (whether or not ascertained)” includes a reasonable estimate of the amount of the losses (based upon the facts in each case and the company’s experiences with similar cases) incurred but not reported by the end of the taxable year as well as losses reported but where the amount thereof cannot be ascertained by the end of the year. By taking into account for its prior years only the reported losses but not the unreported losses, the taxpayer has established a consistent pattern of treating a material item as a deduction. The effect of the taxpayer’s claim for the first time of a deduction for an estimate of losses incurred but unreported under section 809(d)(1) of the Code, was to change the timing for taking the deduction for the incurred but unreported losses.

Due to the taxpayer consistently deducting losses incurred in the taxable year in which reported, a change in the time for deducting losses incurred under section 809(d)(1) is a change in the method of accounting for such losses to which the provisions of section 446(e) apply (IRS, 14-30).

In order to qualify for an insurance company under the current IRS regulations, the MCO must have the following criteria (Kongstvedt, 235-256):

· At least 50% of the MCO must come from insurance related activities.
· The MCO must have an insurance company license.

If an MCO did not have these two criteria, the IRS will not deem the manage care company as an eligible insurance company. Therefore, the MCO would not be able to file for IBNRs with the IRS.

How MCOs/HMOs Intensify IBRN Claims

There is a high degree of uncertainty inherent in the estimates of ultimate losses underlying the liability for unpaid claims. The only reason the IRS would not allow an MCO to deduct IBNR because the financial statements is based on an estimate (IRS, 134-155).

Except through the insurance company exclusion IRS does not allow any taxpayer to deduct losses based on estimates. There has been some precedence set that the IRS will accept an amount for incurred but not reported claims if the amount is supported by valid receipts of claims that the company has in-house prior to the filing of the tax return.

There has been some controversy as to how long of a period of reporting time the IRS will allow you to include in those estimates. There are ranges from 3-6 months to file a claim (IRS, 137). The process by which these reserves are established requires reliance upon estimates based on known facts and on interpretations of circumstances, including the business’ experience with similar cases and historical trends involving claim payment patterns, claim payments, pending levels of unpaid claims and product mix, as well as other factors including court decisions, economic conditions and public attitudes.

There has been no clear indication from the IRS that it will accept an accrual for these losses and entities. Therefore, companies deducting such losses may eventually find themselves in a position where the IRS may challenge the relating deductibility of those losses.

Evaluating IBNRs from a New Present Value Perspective

The best measure of whether or not a stream of future cash flows actually adds value to the organization is the net present value (NPV). The best decision rule for NPV to accept or reject a decision problem is if the NPV is greater than zero, the project adds value to the organization. Although – if the NPV is exactly zero
IBNR Challenges and Solutions

While I was unable to find an actual amount of the cost of the penalties that can be incurred, the IRS is able to impose penalty fees under Section 4958 of the IRS code (IRS, 256). While penalties differ depending on individual bases, MCOs will be penalizing for any misconduct either by IRS Codes or Court Jurisdiction.

It is prudent that MCOs ensure their organization that they will not incur a financial “meltdown”. They further need to ensure IBNR is funded for period of at least 2-3 months. In some states, the state laws make the MCO financially responsible to pay the providers for a second time if the intermediary fails to pay or becomes insolvent (Cagle, 1).

Paid losses, paid expenses and net premiums are usually deductible; reserves for incurred-but-unpaid losses generally are not, unless the taxing entity is an insurance company. Consequently, if a corporation has a high effective tax rate and concedes that it cannot deduct self-insured loss reserves, some of its more cost-effective options may be a paid-loss retro (if state rules are not too restrictive), a compensating balance plan, or the formation of a pool or industry captive. Even these plans may be subject to IRS challenge. To qualify as a tax-deductible expense, a premium or other payment must satisfy two criteria (Cagle, 2):

- There must be transfer of risk: an insurance risk. This differs from investment risk, but there is no authoritative definition of “risk transfer” other than various court decisions (primarily Helvering v. Le Gierse, 312 US 531 — U.S. Supreme Court 1941).
- There must be both risk shifting and risk distribution. “Risk shifting” means that one party shifts the risk of loss to another, generally not in the same corporate family. “Risk distribution” means that the party assuming the risk distributes the potential liability, in part, among others.

The deductibility of an insurance expense may also be questioned if it is contingent upon a future happening, such as a loss payment, right to a dividend or other credit, or possible forgiveness of future loans or notes (Cagle, 3). This may seem a broad statement, but the Cost Accounting Standards Board states in its Standards for Accounting for Insurance Expense that any expense which is recoverable if there are no losses shall be accounted as a deposit, not an expense. This is essentially the IRS position (IRS, 145).

Assessment

While there are a few solutions to this matter, the IRS is making sure that MCOs will be penalized if MCOs improperly handle IBNRs. It is also important for organizations to understand the MCO’s policies regarding IBNR reserves and their contractual obligations. And, while the IRS has set limitations for MCOs to file their IBNR claims, MCOs have the major responsibility of allocating these IBNR claims appropriately. There are severe penalties for not properly filing the IBNR claims appropriately. However, there is several tax saving strategies to help MCOs properly file their IBNR claims with the IRS. It imperative that MCO executives and accounting manager consult an expert to properly plan an ethical strategy that will help them build a stable business that is trustworthy and reliable.

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Conclusion
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