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Governmental Services Committee Report
Health and Aging

SUMMARY

Florida continues to be one of the fastest growing states in the nation and is on track to break the 20 million mark, becoming the third most populous state in the nation shortly after 2010. On October 30, 2007, the Florida Demographic Estimating Conference projected that the state's population will be 25,465,500 at the end of fiscal year 2026 - 2027.[1] The state's population growth has stayed between 2.0 and 2.6 percent since the mid 1990s, but is projected to slow, averaging approximately 1.0 to 1.1 percent between 2025 and 2030.[2] In fact, the latest numbers from the University of Florida indicate that there has been some slowing in the last year, from an average increase of more than 400,000 a year from 2003 through 2006, to 331,000 from 2006 through 2007.[3]

While there may be some slowdown in overall population growth in the state, economists continue to predict that Florida will be the destination of choice for millions of retirees over the next two to three decades. As "baby boomers" retire in massive numbers, all indications are that Florida's economy will be well maintained and continue to grow. In a presentation before the Taxation and Budget Reform Commission on November 1, 2007, Dr. David Denslow, representing the Leroy Collins Institute, gave testimony that the aging population will continue to grow as affluent baby boomers choose Florida as their retirement destination. He noted that the new population will be made up of wealthy retirees who prefer the temperate climate and proximity to beaches.[4]

Growth in the aging population brings new wealth to the state, as older citizens tend to use roads less and have minimal need for the public education system. However, they bring with them increasing pressures on the state's health care systems, particularly as the retiree reaches the last years of life.

Florida has a good system of health care programs in place to handle the growing population of advanced elderly, including public health care assistance and private providers. The State Department of Elder Affairs and the Agency for Health Care Administration

[1] Florida Demographic Estimating Conference, Tallahassee, Florida, October 30, 2007.

[2] Presentation to the Taxation and Budget Reform Commission by Amy Baker, Director of the Legislative Office of Economic and Demographic Research, at its May 18, 2007 meeting.

[3] "Florida's population growth slows a bit," Associated Press, November 8, 2007.

[4] Remarks by Dr. David Denslow in his presentation to the November 1, 2007 TBRC meeting.

encourage programs to assist clients in remaining in the care of family for as long as possible before moving to assisted living, long-term care, or nursing facilities.[5]

BACKGROUND

Florida is projected to have approximately 6.1 million persons at or above retirement age residing in the state by 2030. Of those, approximately 1 million persons will be 85 years old or older.[6] At that time, the retirement age population will constitute 25 percent of the state's population.

While Florida's population continues to age, trends indicate that the older population is relatively healthier over time than they have been in the past. The disability rates in the state have been declining approximately 1 percent per year since the mid-1980s and the trend is expected to continue. Florida's older population is 45 percent less likely to require long-term nursing care than elders from other states.[7]

Even though the older population in Florida is generally healthier, and has a stable support system for community and family-based care, there are continued needs for long-term nursing care for the advanced aged and indigent elderly. The per diem cost for nursing home care continues to climb even as the overall need for that care declines.[8]

Many of the costs of long-term care for the state's aging population are paid by the federal Medicaid program. The program is formula based, and as a result of Florida's relative wealth, the state does not receive a large per capita share of the federal funds.[9]

Florida Medicaid Program

One of the largest cost-drivers for the State of Florida on an annual basis is the Medicaid program. The program was created in 1965 as part of an amendment to the federal Social Security Act and provides that the federal government will share costs with state governments.

States administer their programs under federally approved state plans.[10] The federal Medicaid program requires the state to provide coverage to mandatory eligibility groups and to provide a specific set of services at a statewide level, in the same amount, duration, and scope.[11]

In Florida, Medicaid covers 60 percent of all nursing home bed days. 903,000 adults, including aged and disabled persons, receive Medicaid assistance. Florida is projected to spend approximately $7,736 per eligible client in 2007-2008. There are projected to be two million eligible clients in Florida in fiscal year 2007-2008. Eligible clients

[5] Presentations by Dr. Horacio Soberon-Ferrer, Department of Elder Affairs, and Beth Kidder, AHCA, at the August 17, 2007 Governmental Services Committee Meeting.
[6] Presentation by Dr. Horacio Soberon-Ferrer, Chief Economist, Department of Elder Affairs, to the Governmental Services Committee, August 17, 2007.
[7] Ibid.
[8] Ibid.
[9] Presentation by Dyke Snipes, Assistant Deputy Secretary for Medicaid Finance, Agency for Health Care Administration, to the Governmental Services Committee, August 17, 2007.
[10] Ibid.
[11] Ibid.

include elders, disabled, families, pregnant women, and children in families below poverty levels. Florida is the fourth largest Medicaid population in the nation and has the fifth highest expenditures for Medicaid in the United States.[12]

Medicaid expenditures in Florida are expected to be $16 billion in fiscal year 2007-2008. This amount represents 25 percent of the state's expenditures for the period. The current match rate for federal and state share of Medicaid costs is 56.83 percent federal and 43.17 percent state.

Forty five percent of Medicaid expenditures in Florida cover hospitals, nursing homes, intermediate care facilities for the developmentally disabled, low income pool, and disproportionate share payments. Ten percent of all Medicaid expenditures cover the costs of drugs. Other provider participants may include Rural Health Clinics (RHC), County Health Departments (CHD), Federally Qualified Health Centers (FQHC), physicians, home health services, dental services, emergency and non-emergency transportation providers, dialysis, nurse practitioners, and laboratory services.[13]

Interestingly, while the caseload intake has decreased over the last two years, the costs for the program have increased as a result of an increase in the required state share and increases in the cost for higher end services such as nursing home bed days. The over-65 age enrollees in Medicaid make up only 14.94 percent of the eligible participants, but due to the higher costs of the services needed in the older population, the group accounts for 27.47 percent of Medicaid expenditures.[14]

Florida Medicaid Coverage of Long-Term Care

Florida provides Medicaid long-term care for eligible persons. In a recent American Association for Retired Persons survey, 74 percent of Floridians underestimated or did not know how much nursing home facilities cost on a monthly basis. Fifty four percent incorrectly believed that Medicare would pay for long-term nursing facility services.[15]

In Florida, Medicaid Long-Term Care consists of either nursing facility care or home and community based services waiver programs. Waivers are required to "opt out" of the nursing home care requirement of the federal program. Florida has been successful in making the case for cost savings and increased quality of care through home and community based waiver programs. The state now has six approved waiver programs that focus on elderly assistance.[16]

METHODOLOGY

The Governmental Services Committee heard presentations from Mr. Carlton (Dyke) Snipes, Assistant Deputy Secretary for Medicaid Finance of the Agency for Health Care Administration

[12] Ibid.
[13] Ibid.
[14] Ibid.
[15] AARP: the Costs of Long-Term Care: Public Perceptions Versus Reality in 2006, December 2006.
[16] Presentation by Beth Kidder, Bureau Chief for Medicaid Services, AHCA, to the Governmental Services Committee, August 17, 2007.

(AHCA); Ms. Beth Kidder, Bureau Chief for Medicaid Services, AHCA; and Dr. Horacio Soberon-Ferrer, Chief Economist for the Department of Elder Affairs at its August 17, 2007 committee meeting. In addition, the full Taxation and Budget Reform Commission (TBRC) heard a presentation from Ms. Amy Baker, Director of the Legislative Office of Economic and Demographic Research, at its May 18, 2007 meeting, and from Dr. David Denslow, representing the Leroy Collins Institute, at the November 1, 2007 TBRC meeting.

Additionally, staff has reviewed Ms. Baker's presentation to the Planning and Budgetary Processes Committee on September 6, 2007.

Meeting minutes, audio recordings, presentations, and documents presented to the committee are available on the web at www.floridatbrc.org.

FINDINGS

The "Baby Boom" cohort, those born between 1946 and 1964, will begin to reach normal retirement age in 2011. The last of the cohort will reach retirement age in 2029. The economic effect of the baby boom cohort will last through at least 2050.[17] This effect will be more pronounced in Florida due to the large number of retirees already residing in the state and the projected desire of newly retired persons to live in a warm and inviting climate.[18]

In a presentation to the Governmental Services Committee, Dr. Horacio Soberon-Ferrer, Chief Economist for the Florida Department of Elder Affairs, made some interesting and counter-intuitive observations. Dr. Soberon-Ferrer noted that while Florida's aging population will continue to grow, the favorable long-term trend for the reduction in utilization of nursing home facilities will continue for another 25 years. Because of improved health and lower disability rates, lower rates of widowhood, more and better Assisted Living Facility (ALF) and Continuing Care Retirement Community (CCRC) programs, and a well developed network of home care providers, proportionally less of the state's population will need nursing home care.[19]

Conversely, nursing home reimbursement rates are continuing to grow at 5 percent above inflation rates, and there is an unabated shortage of health care professionals and paraprofessionals to work at nursing care facilities. These factors continue to drive the per diem rates for nursing care beds up at an alarming rate.[20]

Nationally, chronic disability rates for persons 65 years of age and older have leveled off at approximately 7 million, a drastic reduction from the projected 9.8

[17] Presentation to the Taxation and Budget Reform Commission by Amy Baker, Director of the Legislative Office of Economic and Demographic Research, at its May 18, 2007 meeting.

[18] Remarks by Dr. David Denslow in his presentation to the November 1, 2007 TBRC meeting.

[19] Presentation by Dr. Horacio Soberon-Ferrer, Chief Economist, Department of Elder Affairs, to the Governmental Services Committee, August 17, 2007.

[20] Ibid.

million.[21] This relative decrease in the number of persons requiring long-term nursing care has resulted in a shift away from nursing care facilities and towards assisted living facilities and community care programs. Both types of care are less expensive than nursing care.

In addition, Dr. Soberon-Ferrer pointed out that stable marriage rates and the decline in disability rates may imply that growth in the elderly population can actually lower demand for nursing home care because an increase in the elderly male population indicates that spousal home care remains an option for elderly females (and males) for a longer period as the supply of healthy caregivers rises.

To understand the dynamics of the healthy aging process, Dr. Soberon-Ferrer showed a comparison of annual cost per customer of programs serving Florida's elders. As the level of frailty of the customer went up, the costs escalated.

For example, the annual cost per person for participation in the Older Americans Act program (Meals On Wheels and light assistance, as needed) was $1,891 in fiscal year 2005-2006. Home Care for the Elderly program cost was $2,329, while Medicaid Assisted Living for the Elderly Waiver care cost $8,740, Medicaid Nursing Home Diversion Program (home health waiver) care cost $21,063, and the federally mandated nursing home care cost $44,836. [22]

From these findings, it is clear that it is in the state's and the customer's best interest to actively pursue programs that keep older citizens healthy, and that reduce the state's Medicaid costs to care for older citizens.

Long-term care in Florida is largely funded by non-public sources. The publicly funded share of long-term care costs in Florida is about 14.5 percent while the remaining 85.5 percent is picked up through private sources, including some long-term care insurance and out-of-pocket by users.[23] There is some confusion among consumers about the difference between Medicaid and Medicare programs. Medicaid eligibility is determined by income need and includes entitlements such as nursing home care, while Medicare is available for all persons over a certain age, but does not pay for most long-term care needs.[24]

Florida's long-term care costs are actually lower than those in other states and across the United States due to the terms of the state's Medicaid program agreements with the federal government. Annual nursing home expenditures for Florida's 65 year old or older population are estimated to be approximately $693 per capita. In comparison, Oregon's costs for that same population are estimated to be $1,242, and the national average is $1,500.[25] The percentage of the state's overall population of residents age 65 or older in nursing homes is impressive, with only 2.5 percent of the state's 65 year old or older population requiring nursing home care, while the

[21] AARP Public Policy Institute based on 1994 Long Term Care Survey and U.S. Census Bureau population projection middle series (slide provided as part of Dr. Soberon's presentation).

[22] Presentation by Dr. Horacio Soberon-Ferrer, Chief Economist, Department of Elder Affairs, to the Governmental Services Committee, August 17, 2007.

[23] Ibid.

[24] Ibid.

[25] Ibid.

national rate is 4.2 percent. Florida's per capita costs are lower because we have a proportionally higher number of residents in the age group and a proportionally healthier cohort.[26]

The cost driver for the state's Medicaid program is the steady increase in the per diem cost of nursing home care. The cost per bed has grown steadily at approximately 6.7 percent per year. A nursing home bed per diem rate of $95.18 in 1997 had grown to $150.10 just seven years later in 2004.[27] Today, the average Medicaid daily rate for nursing facility care is $178.77.[28] These reimbursement rates are mandatory, but are set by the state based on cost and census data provided by nursing care facilities across the state on a semi-annual basis.

As Florida's healthier older population stays out of nursing home care for longer periods of their lives, the customers in those nursing homes are increasingly much older and frailer. Extended life expectancies and better medical care have created a new type of nursing home customer that requires a high level of care.

At the same time, the labor pool of medical and paramedical professionals to work with these frail elderly in nursing home care is shrinking. The combination of these factors appears to be the leading factor in driving nursing home costs steadily higher over the next fifteen to twenty years. Assuming that nursing home per-bed-day costs in Florida continue to grow at the current rate of 5 percent over inflation, and calculating costs in constant 2003 dollars, the cost of that service will have grown from approximately $2.1 billion in 2003 to $5.5 billion in 2020.[29]

As noted earlier, much of the cost of long-term care for the elderly is paid by private sources. In order to qualify for public assistance through the Florida Medicaid program, a customer must meet the need for nursing facility levels of care, have income and assets within the Medicaid limits, and reside in a nursing facility that participates in the Medicaid program or be enrolled in a Medicaid home and community based services waiver program.

Persons participating through a waiver program must meet additional criteria such as having a diagnosis of Alzheimer's disease or needing assistance with bathing or dressing.[30] The Agency for Health Care Administration continues to encourage Florida residents to participate in private long-term care insurance programs in an effort to offset the public cost of such care.[31]

While studies consistently find that people of all ages prefer to receive services in their own homes rather than nursing facilities, the federal government continues to take the position that Medicaid care should be administered in

[26] Ibid.
[27] Ibid.
[28] Presentation by Beth Kidder, Bureau Chief for Medicaid Services, AHCA, to the Governmental Services Committee, August 17, 2007.
[29] Presentation by Dr. Horacio Soberon-Ferrer, Chief Economist, Department of Elder Affairs, to the Governmental Services Committee, August 17, 2007.
[30] Presentation by Beth Kidder, Bureau Chief for Medicaid Services, AHCA, to the Governmental Services Committee, August 17, 2007.
[31] Ibid.

a nursing care facility. Under the Medicaid rules, nursing home care is an entitlement and the state is required to pay for anyone who meets the medical and financial criteria. Home and community based waiver programs are much less expensive, but are only available through legislative appropriations.

Once the state funds to pay for these less expensive programs are exhausted, users must default back to the federal entitlement program.[32] This institutional bias causes the public cost of long-term care to remain very high. The result of this federal policy is that in fiscal year 2005-2006, the Florida Waivers program was able to serve only 29,983 customers, while the Florida Nursing Home Care program served 81,502. The cost to serve the Nursing Home customers was $2,581,363,986, while the cost to serve the Waivers customers was only $268,208,937.[33] It is clear that the federal entitlement program regulations cost Florida hundreds of millions of dollars a year by failing to assist in higher usage of waiver programs.

According to Dr. Soberon-Ferrer, there are ways that state policymakers in Florida can have an impact on the high costs of Medicaid long-term care. The state can continue to support and encourage family and personal responsibility through education programs, support for development of affordable long-term care options, and creation of Aging Resource Centers as local contact liaisons for education, information, and referral on the subject. The state can continue to actively support programs that encourage good health at all ages, social interaction, and physical and mental wellness.[34]

In addition, state policies can support a long-term care system that favors community based care, promotes de-institutionalization, removes institutional bias, is customer centric, and is flexible enough to allow funding to follow the consumer across various care settings over time. Service dollars could be used to supplement, rather than supplant, personal and family resources and more preventive care services could be offered.

The public long-term care system should prioritize and target services based on risk, and maximize return on investment by integrating types of care, finding administrative efficiencies, finding ways to share risk with participating partners, and maximizing federal funding streams to keep the population healthy and self-sufficient.[35] Dr. Soberon-Ferrer noted in his remarks that for every dollar that the state spends in alternative care programs, it saves $53 in nursing care facility costs. He indicated that a strong focus on "well elders" in Florida could save as much as $600 million in costs over time due to a reduced need for long-term health care services.

While Florida's Medicaid Program managers have done a good job in finding ways to encourage a reduction in nursing home bed usage and negotiating waiver programs with the federal government, the inflexibility of the federal program continues to drive

[32] Ibid.
[33] Ibid.
[34] Presentation by Dr. Horacio Soberon-Ferrer, Chief Economist, Department of Elder Affairs, to the Governmental Services Committee, August 17, 2007.
[35] Ibid.

extremely high costs for a small segment of the state's public health constituency. Florida law requires an annual review of all statutorily set options in the Florida Medicaid program. In addition, the state has begun pilot programs in Duval and Broward counties to try to lower Medicaid costs. Data from those programs are still in the internal review process.

There is some indication, through measures included in the currently pending federal Deficit Reduction Act, that the federal government is recognizing the need for more flexibility at the state level for more proactive use of home and community based care programs. On the downside, the Deficit Reduction Act has some formulaic funding language that would be detrimental for Florida's programs. State government analysts continue to watch the federal legislation and to work with federal partners to improve the final version of the pending legislation.[36]

CONCLUSION

The impact to Florida's health care system, as a result of the projected growth in the aging population, is very difficult to ascertain with any degree of reliability due to the numerous variables effecting such calculations.

While Florida's aging population is projected to grow at exceptionally high rates through at least 2030, as a consequence of the baby boom cohort retirement, the ability to project the impact of that growth on the health care system depends on what segment of the cohort moves to Florida, what health problems that segment may have, whether "at home" or "aging in place" options will be made more available by the federal government for the most expensive portion of the cohort, whether people continue to live beyond current expectations, whether the cost per bed day for nursing care facilities can be reduced, whether enough nursing care staff can be made available, and whether the state adopts more wellness programs to keep the older population self-sufficient for a longer time.

In short, it is impossible to make static predictions about a completely dynamic situation much beyond the short-term numbers offered in the report.

RECOMMENDATIONS

[36] Presentation by Beth Kidder, Bureau Chief for Medicaid Services, AHCA, to the Governmental Services Committee, August 17, 2007.