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# The Game's Afoot

In the famous Sir Arthur Conan Doyle mysteries, Sherlock Holmes would always say, "The game's afoot!" at the moment the adventure was about to begin. This exclamation was usually prefaced by accumulating clues and ominous character development. The nature and intensity of the mystery had to build before the solution could be found by the powers of reason and deduction.

**Today, the greatest mystery for Americans and all modern industrialized nations around the globe is: How will we pay for the rising cost of care for rapidly aging populations?**

The reality of the shift to larger, older populations must be the core principal in any future social, political or economic plan. I must begin by admitting I am never sure whether government creates more problems than it solves. However, my innate human optimism demands that I believe that we can and will tackle difficult and unpopular political problems.

We are faced with some very pressing issues which will require the same courage and deductive reasoning used by Sherlock Holmes. The national debate and ongoing political struggles in America will be dominated by healthcare issues. There are no easy answers.

There can be no denial of the overwhelming financial effects of baby boomer demographics. There is at least bipartisan consensus that Social Security, Medicare and Medicaid cannot and will not survive in their present form. Estimates from the

National Center for Policy Analysis are that in 25 years entitlements for the elderly will consume one of every two income tax dollars. David M. Walker, Comptroller General of the United States, recently said, "It is clear that, taken together, Social Security, Medicare and Medicaid represent an unsustainable burden on future generations."

The "clues" can no longer be ignored or dismissed as temporary aberrations.

Social Security reform is the President's number one domestic priority. Medicare ran into negative cash flow territory last year. Medicare drug spending is now estimated to triple the Medicare percentage of GDP by 2030. Medicaid is the nation's largest health care program. Seventy percent of Medicaid spending is on long term care needs, which represents over half of all monies spent on long term care. The truth is, Medicaid has increased the percentage it pays versus consumer liability by almost 20 percent over the last 20 years, which equals 58.5 percent of the total cost for nursing homes in 2003. Medicaid spending is rapidly overcoming monies spent for education in a majority of the states in America. Medicaid has already become the single largest expenditure in state budgets.

It is important to understand that current government programs are strongly and adversely interrelated. Rising Medicare premiums erode Social Security benefits. Medicare deductibles and coinsurance affects eligibility for Medicaid. Social Security benefits are applied directly to the cost of

care when on Medicaid. One half of an individual's out-of-pocket expense for Medicaid is really Social Security benefits. In many ways we have become our own worst enemy by building a system that feeds upon itself.

The answers are finally bubbling to the surface. Our new Health and Human Services Secretary Michael Leavitt recently stated, "We have to rethink the way we approach this. In my judgment, it's going to require building an ethic of people caring for themselves and preparing themselves for a day when they cannot."

He is talking about us; this is exactly what we do best—help people plan so they can be prepared. Americans will have to pay more as government is forced to pay less. We already know how this works. The less Medicaid currently pays, the greater the burden on private pay patients.

Medicaid is severely underfunded. Current estimates are \$4.5 billion less than the actual cost. Is there really anyone left out there who believes that Social Security benefits will remain at current levels or that Medicare premiums, deductibles or co-pays will not increase?

The answer as to who will pay is obvious, even to Doctor Watson. It is extremely important to understand that the money (always the answer) is already out there. Somewhere between 70 and 80 percent of seniors own their homes—roughly \$2 tril-

lion in home equity. It is also estimated that there is another \$9 trillion in IRAs and other retirement accounts.

Government options are in full retreat and, I might argue, as they should be, and the only sure access to quality care requires private payment. There really is only one reasonable deduction: *Leverage a known and certain risk—buy a policy now!*

There are finally some signs of hope coming from our nation's capitol. Congress passed a \$250 trillion budget for 2006, which includes a \$10 billion cut in Medicaid over five years. Medicaid can and will return to its original intention—a social safety net for the poor. According to Congressman Charlie Norwood (R-GA), "Medicaid has become a welfare program for middle income families."

Congress has tried repeatedly to protect against the excesses of Medicaid planning. Estate recovery was always a part of the program and mandated to the states by OBRA 1993. A growing number of states are increasing their enforcement. The question of how much of the \$10 billion can come from restricting Medicaid planning cannot be avoided. The President and the governors are against qualifying for Medicaid by transferring assets. Again, there are definite signs of hope. The nation's governors have developed a report titled "Medicaid Reform: A Comprehensive Approach" that offers a vision of "Medicaid plus healthcare

reform including incentives and penalties for individuals to take more responsibility for their healthcare."

Just as the problem is interrelated, so must be the solution. There is evidence that Social Security reform is seeking to build a greater consensus, which might include provisions on retirement savings, long term care and private pensions.

The growth of HSAs has been dramatic, and I would suggest that growth is partially fueled by the hope of pretax long term care insurance deductibility. Proving yet again that Americans will take advantage of tax incentives.

Legislation has been reintroduced to provide premium deductibility, caregiver tax credits and the use of Section 125 dollars for long term care insurance premiums. There have also been suggestions to allow long term care insurance premium payments from IRAs, 401(k) accounts and rollover balances in flexible spending accounts.

I believe our nation's greatest uninsured risk can and will be protected by what we do best, helping Americans take personal responsibility for their own needs. Even Sherlock Holmes would be proud.

For those of you in the LTCI industry who have not figured it out yet, I would like to suggest that Stephen Moses and the Center for Long Term Care Reform, Inc. ([www.centerlrtc.com](http://www.centerlrtc.com)) may just be the reincarnation of the great Sherlock Holmes himself. 🌐