New federal incentives encourage states to shift long-term care spending away from institutions

By Kathryn Tormey [1]
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Under the State Balancing Incentive Payment Program, which was included in the federal Affordable Care Act of 2010, states will have the chance to receive enhanced Medicaid matching funds in exchange for increasing their commitment to home and community-based care.

The goal of this new federal incentive is in line with a common recommendation made by health care experts: Reduce spending on long-term services by allowing patients to receive care at home or in their local communities instead of in institutions.

Evidence from several states shows that providing services in home and community-based settings can be less expensive than institutional care. In addition, consumers report increased satisfaction when they can receive services at home or closer to their families.

Medicaid finances about 40 percent of the nation’s spending on long-term services.

By law, states are required to cover the costs of services in institutions, but states can choose to offer home and community-based options, usually through a federal Medicaid waiver.

Now, with the new incentive program in place, states that spend less than 50 percent of long-term-care dollars on home and community-based services are eligible for an enhanced Medicaid match. According to the Kaiser Family Foundation [3], 45 states— and all Midwestern states — are eligible.

Up to $3 billion in federal matching funds is available between fiscal years 2012 and 2015. States that spent less than 25 percent of their long-term-care dollars on non-institutional care in 2009 will need to reach 25 percent by 2015. They will receive a 5 percentage-point increase in their matching percentages. States that currently spend less than 50 percent of their long-term care budgets on these services will have to reach 50 percent — and will receive a 2 percentage-point increase in the
federal match.

In addition to meeting these spending goals, participating states must also make administrative changes to increase the use of home and community-based services in Medicaid. For example, states must put in place a “no wrong door” system in which consumers can get information about all long-term services through a single entity.