

## EXECUTIVE SUMMARY

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For more than a century, California, like many states across the nation, has proudly maintained homes for veterans and their spouses. Indeed, the state's commitment to giving back to those who have served us all is so strong that in the late 2000s, as many among the Greatest Generation began to age, Californians approved spending to nearly double the capacity of its veterans homes system from 1,984 beds in three homes to nearly 3,000 beds in eight homes. The California Department of Veterans Affairs (CalVet) broke ground on its new homes in June 2007 and for the next six years undertook unprecedented construction which culminated in October 2013 with the opening of the two newest homes in Fresno and Redding. As a result of this building spree, California today boasts the largest system of veterans homes in the nation. Within these walls, veterans are offered a range of services including independent living, assisted living or residential care, intermediate care and skilled nursing for veterans who are age 55 or older or are disabled or homeless and in need of long-term care.

### California's Veterans

Most of the veterans currently living in the state's homes served during World War II and the Korean War. Generally, veterans from these conflicts arrived later in life in good health and with sufficient resources to care for themselves. However, an increasing number of home residents served during the Vietnam War and come to the homes in poorer health than those serving in earlier cohorts. Many have complex physical and mental health needs, some of which the homes are not yet capable of addressing.

But, residents of these eight homes – approximately 2,700 individuals in 2015-16 – represent just a fraction of the more than 1.71 million veterans who currently live in California. Of them, approximately 1.11 million, or about 65 percent, are over the age of 55. An alarming number of California's homeless are veterans, many of whom also are aging. Research suggests California's aging veterans

already have more challenging health needs than their predecessors and this trend is likely to continue. In the coming decades, California's population of veterans also will both shrink and become more diverse in terms of gender, race and ethnicity. Researchers anticipate that compared to their younger comrades, those serving in the Gulf War and the most recent conflicts in Iraq and Afghanistan, may need support earlier in life and for more years due to the severity of their service-connected disabilities.

### The Cost of the Veterans Homes

California's veterans home beds come at a cost, both in terms of the high price tag of health care, as well as the opportunity cost of not investing elsewhere. The state's eight veterans homes are expensive to operate and consume the lion's share of General Funds allocated to CalVet each year. In fiscal year 2017-18, California budgeted \$306 million for the homes to fill approximately 2,610 beds.<sup>1</sup> This translates to a staggering \$117,241 per bed. Yet the Commission found the math is more nuanced and complicated, as described in detail later in this report. In large part, the figure is not accurate because it does not account for revenue the state collects from individual residents, insurers and federal programs such as the U.S. Department of Veterans Affairs and the Centers for Medicaid and Medicare to offset the cost of the veterans homes. In 2017-18, revenue collections are likely to cover 39 percent of the total cost, leaving California taxpayers to pay approximately \$71,000 a year per bed.<sup>2</sup> The Commission also found that policy choices significantly drive the costs.

Trends in long-term care show that in California and across the nation, investments are increasingly being made in community-based rather than institutional settings. Community-based services and supports generally cost less than institutional care, and also allow families to avoid potential hardships stemming from separation that is unavoidable in institutional care settings.

With this review, the Commission urges veterans, veteran leaders and policymakers to ask hard questions about why California continues to invest in veterans homes, and to consider when and where other options might allow California to help more service members with a similar level of investment. California should not maintain the status quo simply because we have always cared for aging and disabled veterans in distinct veterans homes. California's rapidly changing veteran population will undoubtedly redefine what types of services are needed, and soon. California should prepare now to thoughtfully consider how to meet the demands of tomorrow's veterans in the most fair and equitable way possible, while keeping promises to those who already depend on the veterans homes for their care. To start, the Commission challenges state leaders to redefine the role of the veterans homes in the 21<sup>st</sup> century and simultaneously examine the funding mechanisms to support the veterans homes.

## **Redefining the Role of California's Veterans Homes in the 21<sup>st</sup> Century**

State policymakers and veterans leaders have the opportunity to boldly reconsider and renew California's commitment to its veterans and redefine how the state's veterans homes meet the needs of current and future veterans. Care must be taken, however, to account for the uniqueness of the various cohorts of veterans and ensure that what is done now to help the growing number of aging Vietnam veterans also can be useful in helping veterans who are now in their 30s and 40s. But the state's review must not focus solely on the population currently and potentially served within the veterans homes. Policymakers must look for opportunities to build a system of care for all California's veterans, of which the homes are one component. To begin, California's veteran leaders must conduct a needs assessment of the state's overall veterans population, as well as determine what services currently are available and where, and what else is needed.

**Admission.** With limited beds available to potentially thousands of veterans who could benefit, policymakers must begin by considering how benefits from the homes are distributed among the state's veterans and whether the homes offer the right kind of care. The Commission recommends policymakers more explicitly define the homes admissions priorities and reconsider the scope of

care offered among the state's veterans homes.

Current policies provide admission for residents of the state who are aged or disabled and who were honorably discharged from active duty, as well as certain non-veteran spouses. Though residents are generally admitted on a first-come, first-served basis, priority may be granted for homeless veterans, Medal of Honor recipients, ex-prisoners of war and wartime veterans. Eligibility does not include a means test or consider a veteran's level of disability. However, if enacted, changes proposed in January 2017 as part of the budget would introduce these reforms.

**Role of the Veterans Homes.** California's veterans homes serve a wide range of residents – from those in need of little more than a roof over their head to those in need of around-the-clock nursing care. However, health care needs of California's veterans home residents, and potential residents indicate a growing need for skilled nursing beds, while demand for domiciliary beds – those offered to veterans generally capable of caring for themselves – is in decline. Demographic indicators suggest that this trend will only increase as more Vietnam-era veterans age. More recent veterans – including some of those recently returned from conflicts in Iraq and Afghanistan – are returning with serious service-connected disabilities and may need long-term services and supports. At the same time, there is an increasing need for housing options for veterans who are homeless or at risk of becoming homeless. As currently structured, the veterans homes generally offer long-term housing and are not set up to provide temporary housing for veterans who may need short-term assistance and health care.

**Redefining California's Veterans Strategy.** While policymakers are taking steps to right-size the veterans homes, they also should feel emboldened to consider strategies to more equably distribute the state's limited resources to facilitate care for more of the state's veterans. To ensure that care is provided where it is most needed, the Commission recommends streamlining the state's veterans homes program, potentially freeing resources that could be diverted to fill service gaps for more veterans in need. Some options:

- **Modify level of services provided in the veterans homes.** Veterans homes in many other

states limit care offerings to veterans in need of intensive skilled nursing. California, too, should gradually eliminate its domiciliary beds and, where possible, increase offerings of more intensive nursing care.

- **Repurpose the veterans homes.** Federal rules require states to maintain operations of veterans homes built with federal funds for 20 years or face a penalty. But, penalties are not incurred after this period should state leaders decide to close or repurpose a facility. Veterans leaders should regularly evaluate the effectiveness of each veterans home in meeting the needs of California’s veterans. If there is little demand for a particular home, policymakers should reconsider how that facility might be better put to use to help veterans regionally.
- **Stop building homes.** In the past, policymakers have opted to build more veterans homes in order to expand services to California’s veterans. However, trends in long-term care suggest that these “bricks and mortar” models of care have lost favor. Instead, older adults prefer care options that allow them to remain at home and in their communities, and communities throughout the state and country are responding.
- **Redirect investment toward home and community-based care.** With the bulk of CalVet’s funding invested in the state’s eight veterans homes, California lacks less-intensive options to assist older or disabled veterans who need some assistance, but would prefer to remain at home or in their communities. Yet, examples abound of programs that help individuals before they need more advanced medical and nursing care. Policymakers should look for opportunities to facilitate partnerships among care providers and, if available, redirect savings from a streamlined veterans home program toward amplifying home and community-based services and supports for veterans.

## Recommendations

***Recommendation 1: The Legislature should amend the Military and Veterans Code to clarify the homes admissions policies and ensure access for the neediest veterans.*** Policymakers should consider prioritizing admission based on financial status, disability rating or other factors.

***Recommendation 2: The Legislature should amend the Military and Veterans Code to eliminate domiciliary care from the state’s veterans home program.*** Instead, the homes should focus on providing care for veterans in need of high-level medical care, such as skilled nursing care. Existing domiciliary residents should be allowed to remain in the state’s veterans homes program as the state gradually moves away from domiciliary care.

***Recommendation 3: To determine whether CalVet should repurpose or shutter one or any of the veterans homes, CalVet should establish a process to systematically evaluate and review each veterans home as it approaches its 20-year mark, and periodically thereafter, and make recommendations to policymakers regarding the future of the home.*** Such a review should include consideration of the needs of the regional veteran population, projections about the changing composition of the veteran population, as well as an assessment of resources available to serve them. Veteran residents, as well as community members and other stakeholders should have a participatory role in the process.

***Recommendation 4: CalVet should conduct an assessment to consider the needs of California’s overall veteran population.*** As part of this assessment, the department should project, to the extent possible, the needs of each cohort of veterans over the next several decades. In addition, the department should assess and catalog the array of services currently available for aged and disabled veterans, making this information available online in a user-friendly, searchable format, and identify any critical gaps in services given conclusions from the department’s needs assessment.

***Recommendation 5: As CalVet repurposes its veterans homes program savings should be redirected to home- and community-based veterans services.***

## Simplify, Stabilize Funding for the Veterans Homes

In fiscal year 2017-18, California's eight veterans homes received state funds totaling more than \$306 million. After accounting for expected reimbursements which CalVet collects from the federal government, resident fees and other revenue sources, ongoing annual operational costs are likely to run California taxpayers upwards of \$185 million. This amounts to a budget of approximately \$71,000 a year per bed after reimbursements. Still, the average total cost per bed – approximately \$117,000 – is a figure experts in long-term care say is more than enough to pay for exceptional private nursing home care in a high-cost state like California.<sup>3</sup> Other states have demonstrated that state-operated veterans homes can provide long-term nursing care with little impact to General Fund coffers. So too should California.

The process to determine how much it costs taxpayers to provide care in its veterans homes is overly burdensome, lengthy and opaque. CalVet is almost required to work backwards – to focus energy hunting down various revenue sources to make up for what was issued up front. To paint a complete picture of the homes' budget, CalVet officials must track revenue collection, sometimes for years. These practices – and the resultant high costs to the General Fund – stem from past policy decisions, many of which are codified in the state's Military and Veterans Code and in administrative regulations. It is time for an update.

Policymakers have a significant opportunity to re-think how California cares for its veterans and create a more efficient and effective system of care to help more of those who have served. Throughout its review, the Commission heard from veterans leaders, home administrators and others who suggested that by reforming several key financial policies, California's veterans homes could operate more efficiently. Legislative changes that govern how the homes collect revenue from several key sources – resident fees, health insurance programs and federal reimbursement programs – offer opportunities for savings:

**Resident fees.** Instead of charging veteran home residents a fee based on the cost of their care, the residents in California pay an amount based on a formula

defined in Section 1012.3 of the Military and Veterans Code. Specifically, CalVet may charge 47.5 percent of a resident's annual income for domiciliary care, 55 percent for residential care for the elderly or assisted living, 65 percent for intermediate care and 70 percent for skilled nursing. Often, this fee covers just a portion of the costs, and after accounting for other forms of reimbursement, leaves the state footing the remainder of the bill.

In other states, the cost of care is established upfront and veterans are responsible for their share, using a combination of supports from the VA and other federal and state entitlement programs, private insurance and private pay. If this is insufficient, a resident may be required to spend down their assets until they are exhausted, and then enroll in the state's Medicaid program where the federal government contributes to the cost of their care. Policymakers should revisit the Military and Veterans Code to clarify that residents should be charged fees based on the cost of their care. Doing so might provide greater incentive for residents to maintain private insurance or enroll in other public assistance programs to help cover the cost of care.

**Enrollment in health insurance programs.** Collecting additional reimbursements from health insurance programs can significantly offset the cost the state incurs to provide care to veterans home residents, but California does not statutorily require veterans home residents to maintain annual coverage. Currently, state regulations only require potential veterans home residents to demonstrate that they have health insurance before they are admitted to a home. Veterans home administrators say that under the current policy, they do not have sufficient authority to enforce or require residents to maintain coverage and can only encourage residents to maintain insurance. However, without consequences, they say this is not enough. Senior CalVet officials, including the Secretary, have stated a desire to require that residents maintain insurance in order to help defray the cost of care.<sup>4</sup>

It is important to note that even for some veterans home residents who have health insurance, coverage may be insufficient to pay the costs of their care. Millions of Californians gained health insurance coverage through the Affordable Care Act, including an estimated 1.18 million who enrolled in Medi-Cal, California's Medicaid program. Because of their age, many veterans home residents

qualify for and receive Medicare benefits. However, these benefits may not cover all health care costs.

**Per diem.** Veterans homes in some other states limit admission to veterans who have high levels of disability, incurred during, or as a result of their military service. The U.S. Department of Veterans Affairs reimburses states for the full cost of caring for eligible “service-connected” veterans. Federal reimbursement for other veterans contributes to the cost of their care, but is insufficient to cover it completely.

California’s veterans homes offer priority admission for certain veterans, such as prisoners of war, Medal of Honor recipients and homeless veterans, but do not grant priority based on a veteran’s disability rating. While some believe service-connected veterans are most deserving of assistance because of the level of their disability, others caution that prioritizing admissions for this subset of veterans could be viewed as discriminatory. California’s policymakers should revisit the veterans homes admission policies, including whether priority admission should be granted based on a veterans disability rating. At a minimum, CalVet should develop strategies to assist more veterans that qualify for the benefits which they are due.

By taking action to stabilize funding for the veterans homes, California has the opportunity to create a more efficient veterans home system and reduce the homes’ reliance on General Fund support. Adjusting the veterans homes policies to reduce their dependence on state funding is not out of line with California’s tradition, particularly if pared with other changes that might allow the state to reinvest savings in other programs to serve more veterans. The Commission advocates that savings be redirected toward supporting programs – and potentially different kinds of programs than are currently offered through the veterans homes – so that more than just a fraction of the state’s veterans may benefit.

## Recommendations

***Recommendation 6: To streamline and modernize the state’s veterans home program, the Governor and Legislature should amend the Military and Veterans Code to:***

- Define the scope of benefits included for veterans home residents.
- Empower CalVet to establish daily costs of care per resident, for each level of care.
- Clarify that veterans home residents are charged fees based on the cost of care and may pay for those fees from various sources, including the U.S. Department of Veterans Affairs per diem and other reimbursements, health insurance or private income.
- Require veterans home residents to maintain adequate health insurance throughout their residence in a veterans home.

***Recommendation 7: CalVet should amend regulations to specify consequences for residents who do not maintain adequate insurance coverage or otherwise pay their share of their costs.***

***Recommendation 8: To enhance fiscal transparency, CalVet should make available, online in an accessible format, its financial reports to the Legislature, which should be augmented to include:***

- The amount of state funds budgeted to each home and the amount of revenue collected, and if necessary, the remaining amount of expected revenue, over a period of several years.
- The costs of care per resident, by level of care for each veterans home.
- The costs of facility maintenance, as well as projections for future maintenance costs, for each veterans home.