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Investments & Financial Planning, Inc.

More Validation for Long-Term Care Insurance

November 2006

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In February, President Bush signed the Deficit Reduction Act of 2005 (DRA). One aim of this law was to curb abuses of Medicaid, the needs-based safety net for the poorest of Americans who someday may need long-term care but do not have the means to pay for it. For years, it was common for citizens with estates of any size to employ methods of disposing of assets in order to qualify for Medicaid (not to be confused with Medicare, the health insurance entitlement program for those 65 and older).

Some of the tools available in the past to those wishing to qualify for Medicaid have been seriously curtailed since the passage of the DRA. Three of the most important changes are discussed below:

Look-Back Period

Prior to DRA, individuals applying for Medicaid were subject to a three-year look-back period for transfers and/or gifts. DRA moves the look-back period to five years.

- **Look Back Example:** Mom transferred a piece of property worth $200,000 three years and two months prior to applying for Medicaid. Under the old rules, because the transfer was made more than three years ago, and Medicaid could only look back three years, the transfer did not prevent her from qualifying for Medicaid. Under the new rules, Mom will suffer a period of ineligibility for Medicaid because the transfer was made during the last five years.

Start Date of Penalty Period

Even more important than the look-back period change is the new rule for the start date of the "penalty period." DRA makes the start of the period of ineligibility begin when one receives institutional care (e.g., a nursing home) *and* becomes financially eligible for Medicaid—often the date the Medicaid application is completed.

- **Penalty Period, Old Rules:** Mom gifted $200,000 two years ago. She suddenly suffers a stroke and needs to receive care in a nursing home. Her penalty period began on the date of the gift. To calculate the penalty period, the amount of the gift is divided by the average cost of care (the current figure used by Medicaid in Colorado is $5,092). In this example, $200,000/$5,092 = 39.3 months. The penalty period of 39.3 months began 24 months ago, leaving 15.3 months of ineligibility still to be met.
- **Penalty Period, New Rules:** Her penalty period begins when she is institutionalized *and* meets all financial eligibility requirements for Medicaid, *not the date the gift was made*. Assuming she already meets the other financial eligibility requirements for Medicaid, *she will still be ineligible for Medicaid for 39.3 months from now even though the asset is out of her estate.*

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Home Equity

Under the old law, home equity was not a countable resource for Medicaid qualification. Under the new law, home equity of more than $500,000 is countable unless the nursing home resident's spouse, child under age 21, or blind or disabled child is still living in the home. States have the discretion to increase the $500,000 limit to $750,000.

- **Home Equity Example:** Except for equity in her home worth $600,000, Mom has spent down her estate to Medicaid eligible levels. Under the old law, she can receive Medicaid regardless of the equity in the home (although the state may place a lien on the home at mom's death). DRA stipulates that the $600,000 in home equity be spent down to $500,000 or less (assuming her state allows no more than $500,000 in home equity).

Responsible Planning

Should one qualify for Medicaid through artificial impoverishment, choices regarding the type of care received are substantially reduced. Would you like to choose the nursing home in which you receive care? Would you like to ensure that you can receive care in a new assisted living facility? Want to receive 24-hour care in your own home? Medicaid is not for you.

It is clear that the planning technique preferred by most financial planners, attorneys, and the state and federal governments is Long-Term Care Insurance (LTCI). If you have not yet considered LTCI, or have dismissed it in the past, take another look. To borrow a cliché, this is not your parents' nursing home insurance. Policies today include more features than ever before, including shared benefits between partners and spouses, care from independent home care providers, return of premium upon death riders, and more. Surveys reveal some of the best reasons for purchasing LTCI:

- Avoiding being a burden to loved ones physically and financially;
- Receiving care in one's own home;
- Affording the best care facility possible;
- Preserving assets for a surviving spouse;
- Passing on assets to family or charity;
- Avoiding the need for Medicaid; and
- Taking advantage of possible tax savings, especially for business owners.

If you are interested in learning more about Long-Term Care Insurance, be sure to contact your financial planner or a qualified broker.

Aaron R. Eisenach is the Regional Vice President of Krieger & Associates, an independent brokerage specializing in Long-Term Care Insurance (LTCI). Krieger & Associates represents nearly a dozen of the top carriers available in the market today. Aaron is a Certified Senior Advisor (CSA) and certified as a Long-Term Care Professional (LTCP). Aaron understands these issues first hand, as his father suffers from Alzheimer's Disease and is receiving benefits from his LTCI policy. Aaron can be reached at 303-697-8988 or 1-800-788-8205, or by sending an email to: ***aeisenach@kriegerltc.com****.*

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