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Medicaid Rules Concerning Long Term Care

A chief concern for many of my clients is the cost of long term care in a nursing home facility. Certain facts are not in dispute:

- People are expected to live longer.
- In the Tri-State, nursing home costs between $200 and $250 per day.
- The cost of health care increases by more than the normal inflation rate.
- It is estimated that anyone over age 65 will have a 43% chance of spending some time in a nursing home.
- The nursing home population is 12% - 65 to 74 years old; 32% - 75 to 84 years old; and 46% - 85 and older.

In February of 2006, the Medicaid rules changed to increase the cost of long term care to the family. Under the old rule, there was a 36 month look-back-period on gifts made to avoid the nursing home. Now it is 60 months. It is more difficult to qualify for Medicaid without spending down the family's assets. The few planning options have become fewer yet. If a spouse is in a nursing home, the other spouse can only keep the following.

- A car
- The home up to $500,000 in equity
- Prepaid funeral plans
- One half of the assets, up to $101,640 in 2007 dollars

The balance of the assets must be used for the spouse in the nursing home. Once those assets are spent down, Medicaid will pay the nursing home cost. Needless to say, that doesn't leave much for the spouse or for an inheritance for the children. If you are single, all assets must be spent down except the following.

- A $4,500 car
- Prepaid funeral plans
- $1,500

Attached is an analysis of how the nursing home cost can deplete a family's assets. If we assume one spouse is in a home at a cost of $90,000 and social security is $18,000, the shortfall is $72,000 per year. Assuming the non-nursing home spouse needs $36,000 for living expenses, $108,000 is needed. With $1,800,000 of investments at a 5% return, in five years, a family's assets have declined $156,000. With $1,000,000 in nine years, the assets are depleted.

People fall into two categories: "self insured" and "at risk". If you have $2,500,000, then you have enough money to pay the cost without dipping into principal and would be considered self insured. However, if your investment assets are in the $1,000,000 to $1,800,000 range, you may be at risk. These are simply bench marks, but at an annual cost of $90,000 and a return of 5%, you need $1,800,000 for one spouse in a nursing home, not counting what the other spouse needs for living expenses.

A reasonable solution for people in the "at risk" category is long term care insurance. A policy can pay or help to pay the cost of a long term stay. The features of a policy include:

1. **Benefit.** The benefit is stated in a per day amount. If the cost is $250 per day, you can buy insurance to cover the whole amount or some part of the daily cost. The more the insurance company pays per day, the higher the premium. If you cover one-third or one-half of the daily cost, that might be enough to make your money last.
2. **Inflation Factor.** Make sure the daily benefit has an inflation factor, so as time goes on and prices increase, your coverage stays current.
3. **Wait Period.** You can purchase insurance that starts paying in 30, 60, or 90 days. You can also wait until the nursing home stay has exceeded one year. The longer you wait before coverage starts the cheaper the premium. Thus, you are willing to be self insured for a short stay, but not the long term stay.
4. **Length of Benefit.** The average stay in a nursing home is currently 28 months. If you insure for only 36 or 48 months rather than lifetime, the premium is lower.
5. **In Home Care.** Does the policy cover some level of in home care?

In order to protect your spouse and your children's inheritance, you should consider purchasing long term care insurance. The cost ranges from $1,000 to $2,500 per year. You can keep the cost of premiums down by insuring only a part of the daily cost, build in a longer wait period, and insure for a period of years rather than a lifetime.

If you employ a money manager or financial planner, talk to him/her about this issue and for a quote on a long term care policy. Most financial planners offer this type of insurance. If he/she doesn't sell the coverage or if you do not have a relationship with a money manager, call me for a referral.

I trust this helps you understand the rules, the risk, and a solution. With continuing pressure on the Medicaid system and the aging population, this type of planning is essential as a part of your overall estate and financial plan. For more information on Medicaid, go to: http://jfs.ohio.gov/OHP/consumer.stm.

I hope this helps you with your retirement planning, estate planning, tax planning, and financial planning journey. Let me know if I can be of assistance. I welcome the opportunity to be a part of your team.

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