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# Mastering the Medicaid Maze

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April is Medicaid Awareness Month, which, at first glance, might have little meaning for financial professionals. Medicaid is a health care program jointly administered by the federal and the individual state (plus D.C.) governments structured to serve people with limited assets and income, a demographic that typically does not overlap with financial professionals.

Nevertheless, clients may have a keen interest in Medicaid's long-term care financing for themselves and their elderly loved ones. As paying forseniorcare.com reported in 2021, "Medicaid, through its state affiliates, is the largest single-payer for nursing home care. While estimates vary, it is safe to say that Medicaid pays between 45% and 65% of the total nursing home costs in the United States."[1] Medicaid also may cover other types of long-term custodial care, including assisted living fees and at-home expenditures for care.

Qualifying for Medicaid's long-term care (LTC) benefits can be complicated because each state has its own rules. After learning about the efforts required to place someone with a Medicaid-provided nursing home bed, financial professionals may prefer to give such planning a secondary role and instead focus on insurance-based solutions to the potential costs of LTC.

## Paying the Price

Medicaid's role as the prime payer for nursing homes in the U.S. results from the costs. Many individuals and families cannot afford to pay for extended stays in those facilities. According to Genworth's latest (2021) Cost of Care Survey, the median national cost of a private room in a nursing home is $9,034 a month, which is over $108,000 a year.[2] The national median annual costs for assisted living and at-home care are in the $50,000-$60,000 range.

Remember that these are national median prices, meaning that some states will be much higher. In New York, the median cost of a private room in a nursing home is nearly $160,000 per year, according to Genworth reports. Even in a "low cost" state such as Georgia, that private room would cost over $90,000 a year. (The cost of a semi-private room around the U.S. might be 5%-15% lower than a private room.)

Keep in mind that these costs are for custodial rather than medical care. The people who need such care may not be acutely ill and may require the care for many years. Even families with six- or moderate seven-figure net worth could see their assets depleted after lengthy stays in a nursing home.

Medicare, the federal health insurance program, does not pay for long-term custodial care unless medical care is needed. In practice, Medicare doesn't pay a great deal of the nation's LTC bill, and that is another reason so many people turn to Medicaid for help.

## Making the Cut

To qualify for Medicaid's LTC coverage, applicants must show limited income and limited assets. For a single person hoping Medicaid will pay nursing home bills, most states limit liquid assets to $2,000. Some personal property, such as jewelry, clothes, and furniture, also might be permitted to be retained by people applying for Medicaid to cover nursing home costs. In some cases, a home and a car might be retained as well.

The limits are more generous for married couples where one spouse will go into a nursing home while the other stays home. Allowable assets include the personal residence and a car, although certain highly valued homes will disqualify an applicant. The at-home ("community") spouse usually can hold up to $137,400 in savings and investments in 2022, which increases with inflation most years.[3] The rules vary, state by state, as to whether retirement accounts held by single or married applicants count as assets for Medicaid eligibility.

In terms of income, persons living in nursing homes are allowed up to $2,523 a month in income in many states, perhaps from Social Security and a pension. Virtually all that income will typically flow to the nursing home, with a personal needs allowance of $30-$150 going to the resident.

The numbers mentioned above vary by state, and the differences can be significant. California, for instance, has been easing its requirements for LTC-through-Medicaid, and other states may also change their rules.

**Sophisticated Strategies**

Suppose clients are interested in using Medicaid to pay for LTC, for themselves or a loved one, but the people to be covered are over the asset or income levels. How might they attain their goal? An example can illustrate some possible scenarios.

Nick and Olive Parker are in their forties, concerned about Nick's elderly parents, Paul and Rachel. It's clear Paul will need care beyond the help that Rachel can provide, and a nursing home might be the best place for him. However, the older couple has $500,000 in assets while Paul receives $3,000 a month from Social Security, which cannot be disclaimed.

Step one for this family might be reducing the older couple's asset total to $135,000, assuming their state's Medicaid rules would allow Rachel to retain that much while paying for Paul's stay in the nursing home. One strategy would be to have Paul go into a local nursing home as a paying customer. If that home charges $8,000 a month for the room Paul selects, he would pay that price for 46 months, spending $368,000. With no asset gains or losses in that period, the couple's assets would be down to $132,000. That could be an allowable amount for Rachel to keep while Paul applies to Medicaid to pay the ongoing nursing home costs.

However, neither the older nor younger couple in this example is happy about the idea of $368,000 flowing to the nursing home, decreasing the couple's savings and a potential future inheritance. Instead, the older Parkers transfer $365,000 to the younger couple, bringing their assets from $500,000 to $135,000. Paul and Rachel have only $135,000, so they meet the Medicaid asset test, right?

Wrong. Medicaid applicants seeking relief from nursing home bills and other LTC costs must go through a "lookback period." This is sixty months in most states, meaning that Medicaid will go through the applicant's complete financial record, tracing family gifts and below-market sales and similar transactions for the sixty months preceding the Medicaid application.[4] (There are no exceptions for charitable donations.)

Assume that the local Medicaid rule uses the same $8,000-per-month private-pay rate for its lookback calculation and that Paul and Rachel have made no other transfers during the sixty-month lookback period. If so, Medicaid would divide the $365,000 divested during the lookback period by the $8,000 presumed monthly cost to arrive at 45.625 months.

This is the so-called penalty period. Someone who has transferred $100,000 during the 60-month lookback period in a locality with a $5,000 private-pay rate would have a 20-month penalty period. And so on.

The penalty in the example of the Parkers is indeed a harsh one. Paul would have to move into a nursing home, spend down the necessary assets to become eligible for Medicaid, apply for Medicaid, and be approved except for the asset transfer. Then the penalty period would begin, so Medicaid would not pay for Paul's nursing home costs until more than 45.625 additional months have elapsed.

As can be seen, this asset-transfer approach would have little value if Paul must go into a nursing home immediately. If that is not the case, Paul and Rachel might stay in their home, going about their lives. Once there are no transfers to track for the 60 months after the giveaway, Paul can enter a nursing home and apply for Medicaid, while Rachel stays home with $135,000 and the younger Parkers hold gifts of $365,000, or what's left after helping with Paul's care since the transfer.

Note that once 60 months (in most states) have passed since all asset transfers, Medicaid will have no asset transfers to track so Paul can apply for Medicaid's LTC coverage. Therefore, families concerned about nursing home costs might suggest that an elderly person (say, a widowed grandmother) transfer some assets to children who can be trusted to care for her. If that grandmother avoids any further asset transfers for 60 months, she can then enter a nursing home and apply for Medicaid without having to contend with a penalty period.

**Trust Tactics**

In our example, Paul's monthly Social Security benefit of $3,000 puts him over the limit for Medicaid coverage if his state uses the 2022 standard of $2,523 a month as the income cutoff. Social Security benefits are locked in, so the excess $477 a month could force Paul to pay $8,000 a month for a nursing home bed, even with few assets remaining.

One possible solution is establishing a Qualified Income Trust (QIT), sometimes known as a Miller Trust. In this scenario, Paul's Social Security payment would go into a QIT and then he could get a modest personal allowance each month. Rachel might get a monthly maintenance needs allowance, and other money could go to the nursing home.[5] If a QIT reduces Paul's income below the limit, he would be meet the income test. Once both the income and asset tests are completed, Paul could apply to Medicaid for LTC costs.

Only half of all states permit some type of QIT to create Medicaid eligibility. Medicaid applicants with income above the relevant amount can show how much they spend on medical and LTC costs in other states. If that spending sufficiently brings down their remaining income, Medicaid eligibility can result.

**Assessing Annuities**

As mentioned, transferring assets will force people to cope with a lookback period if they apply for Medicaid's long-term care coverage. However, spending money may not trigger any problems. Someone thinking about applying for Medicaid might tap financial assets to pay down debt and elect specific medical procedures. Money can be used for home improvements or a safer car in some situations.

In addition, Medicaid planning can involve the purchase of annuities. Will a $100,000 annuity purchase remove $100,000 of assets without triggering lookback problems? Possibly, if the annuity meets specific tests.

A Medicaid-compliant annuity must be fixed, immediate, and irrevocable. It cannot be transferable, and the annuitant's state of residence must be the beneficiary, up to the amount of expense incurred for the Medicaid recipient.[6] If a deferred annuity previously has been purchased, it might be possible to convert this asset to an immediate annuity compliant with Medicaid. Annuity strategies may be beneficial if the payments go to the community spouse while the other spouse is in a nursing home.

All that said, John and Mary Smith should not simply go online, put their money into an immediate annuity, and consider their future LTC risk covered because Medicaid will pay the bills. All LTC issues, including the possibility of going on Medicaid, should be discussed with their financial professional. Any Medicaid planning should be done with the input of an experienced estate attorney, and an insurance professional should be contacted for advice on annuity selection if that is a viable approach.

**Preventative Planning**

Once a financial professional explains the complexities of Medicaid planning, clients may decide to focus on other ways to address potential outlays for future infirmity. One method would be to rely on standalone LTC insurance policies, which may be able to fully or partially pay for a nursing home, assisted living, and home care costs. Clients who are young and in good health will find more options and better prices than those who are much older, with severe medical conditions.

Regardless of age and health, clients may balk at paying significant premiums each year for coverage that may never be needed. The American Association for Long-Term Care Insurance (AALTCI) has estimated that a 55-year-old couple would pay $3,050 a year for LTC coverage, with costs varying widely by policy features.[7] According to the U.S. Department of Health and Human Services, today's average 65-year-old has a 70% of needing some type of LTC, so buying an LTC insurance policy could mean spending that much each year with a 30% chance of never using the policy.[8]

A financial professional might counter that most people pay home and auto insurance premiums each year, even though they might never collect any benefits. According to the latest Genworth report, even one year in a nursing home could cost more than 30 years of paying the premiums in the AALTCI estimate.

Clients determined to get some value from LTC coverage could opt instead for some form of LTC combo product. For example, many life insurers offer policies with an LTC rider. These will pay benefits to the insured individual if LTC is needed and pay death benefits to the policy beneficiaries.

If clients cannot qualify for price-effective life insurance or do not want to obtain more coverage, an annuity/LTC combo is yet another alternative. These products come in many forms, offering the features found in annuities and the potential for extra cash flow if LTC is needed.

The bottom line? There is a good reason that Medicaid is the largest single payer of nursing home bills in the U.S. Most families cannot afford to pay out-of-pocket for several years in a nursing home, on top of other LTC costs. However, qualifying for Medicaid can be complicated for people with assets and income, so collaborating with experienced professionals is necessary. If some LTC coverage is obtained upfront via insurance, there will be less pressure to rely upon money from Medicaid.

## Sources:


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