Harmony Wealth Strategies
William F. McAllister, Jr., CLU®
22 Morgan Farms Drive, Suite 4
South Windsor, CT 06074
860-836-9314
Bill@HarmonyWealthStrategies.com
www.HarmonyWealthStrategies.com

Harmony Wealth Strategies
BUILDING AND SAFEGUARDING YOUR FINANCIAL WORLD

Long-Term Care Partnership Policies

Long-Term Care Partnership Policies

What are long-term care Partnership policies?

The high cost of long-term care has placed a financial burden on individuals and state Medicaid programs. As the number of older Americans grows, the strain is likely to worsen, and containing Medicaid costs has become a priority for states and the federal government. To encourage more individuals to purchase long-term care insurance, many states have enacted Partnership programs that authorize private insurers to sell state-approved long-term care Partnership policies.

Partnership policies are designed to help individuals plan for their long-term care needs while minimizing the risk of impoverishment should the policyholder need long-term care. They are similar in many respects to traditional long-term care insurance policies, but must include inflation protection, asset protection, and other features in order to qualify as Partnership policies. Individuals who purchase Partnership policies, then expend policy benefits on long-term care services, will qualify for Medicaid without having to first spend all or most of their remaining assets (assuming they meet income and other eligibility requirements). This gives people the incentive to buy long-term care insurance, potentially limiting state Medicaid spending.

Some background

In 1992, four states (California, Connecticut, Indiana, and New York) launched long-term care Partnership programs. Other states intended to develop programs, but the Omnibus Budget Reconciliation Act of 1993 (OBRA) halted the implementation of new programs due to the requirement that states recover assets from anyone receiving Medicaid. However, the four states with demonstration projects were allowed to continue selling Partnership policies under the pilot program.

The moratorium on new Partnership programs ended in 2006, after the Deficit Reduction Act of 2005 (DRA) authorized all states to adopt long-term care Partnership programs. As a result, many states have authorized the sale of Partnership policies, and others are still in the process of implementing them.

Partnership policies: A solution to rising Medicaid costs?

Medicaid is the single largest payer of nursing home bills in America. Although it's intended to be the last resort for people who have no other way to pay for long-term care services, more and more Americans with moderate incomes are relying on Medicaid, due to the rapidly rising cost of long-term care.

But as a program for individuals with limited income and assets, Medicaid has strict eligibility requirements. To qualify in most states, residents must meet certain medical criteria, and both their income and the value of their assets must fall below certain levels. Residents who have income and assets that are higher than state mandated levels may have to "spend down" or, in some cases, legally transfer income and assets in order to become eligible for Medicaid. States have the right to seek reimbursement from recipients for Medicaid payments made on their behalf, and can seek reimbursement from their estates, although they don't always do so.

Partnership policies include incentives to encourage individuals to purchase long-term care insurance, instead of relying on Medicaid. Although any resident of a state in which Partnership policies are offered can purchase such a policy, state Partnership programs primarily target individuals with moderate income and assets. These are individuals who can afford reasonable long-term care insurance premiums but who can't afford to pay for long-term care out-of-pocket for more than a short period of time, and thus may eventually need to rely on Medicaid after their assets are exhausted. (Wealthier individuals often don't need to rely on Medicaid in the first place, and individuals with very limited means will likely qualify for Medicaid right away, and may have few assets to protect.)

Although the financial impact may not be known for years, the hope is that when offered a long-term care insurance product with built-in Medicaid asset protection and other features such as inflation protection, Americans with moderate incomes will increasingly plan for long-term care, thus delaying or even eliminating the need to rely on Medicaid.

What makes Partnership policies different?

In many respects, Partnership policies authorized by the DRA are very similar to traditional long-term care policies, and have many of the same features and benefits. Qualifying for a Partnership policy will be the same as qualifying for a traditional

long-term care policy--applicants will still need to meet underwriting requirements of the issuing insurance company.

However, Partnership policies must meet several special requirements. Although Partnership policies may vary somewhat from state to state, they all must meet specific DRA guidelines. According to these guidelines, all new Partnership policies must:

- Offer Medicaid asset protection using the dollar-for-dollar asset protection model
- Include automatic inflation protection if issued to anyone under age 76
- Follow the consumer protection guidelines of the National Association of Insurance Commissioners (NAIC) Long-Term Care Insurance Model Act
- Be tax qualified

The dollar-for-dollar asset protection model

Medicaid asset protection is the main feature that distinguishes a Partnership policy from a traditional long-term care policy. This type of protection is valuable to individuals who would otherwise become impoverished and left with little or nothing to pass along to their heirs in the event they need to rely on Medicaid.

All Partnership policies include some type of asset protection, but DRA-authorized Partnership policies must use a specific model called the dollar-for-dollar asset protection model. Under this model, the amount of assets that are protected from Medicaid spend-down requirements equals the dollar value of benefits paid by the long-term care insurance contract. This is in addition to any asset protection limit that already applies.

Example(s): *Maria purchases a Partnership policy with a maximum benefit of $150,000. She enters a nursing home, exhausts her benefits, and applies for Medicaid. According to eligibility guidelines in her state, normally she would be entitled to keep only $2,000 in assets, but because she has purchased a Partnership policy, Maria will be able to keep $152,000 in assets, and still qualify for Medicaid (assuming, of course, that she meets other eligibility requirements).*

Additionally, assets protected by a Partnership policy are not subject to estate recovery. They can be given away without affecting the insured's Medicaid eligibility, and when the insured policyholder dies, the state will not attempt to recover those assets from the policyholder's estate.

Caution: *It's important not to confuse asset protection with income protection. Even though insured individuals can retain some of their assets, they may still need to spend their income on long-term care before Medicaid covers their expenses.*

Plans in the four original Partnership states are exempt from the newer guidelines and use varying asset protection models. California and Connecticut use the dollar-for-dollar asset protection model, while New York uses both the dollar-for-dollar model and a different asset protection model called the total assets model. The total assets model requires individuals to purchase a specific number of years of long-term care coverage (3 to 6 years). In exchange, the individual receives total asset protection. Indiana uses a hybrid model--policies with benefit amounts up to a certain level offer dollar-for-dollar asset protection, while policies with benefits exceeding that amount offer total asset protection.

Inflation protection provisions

Inflation protection is another key feature of long-term care Partnership policies. Inflation protection means that benefits will increase over time. Although it may substantially increase premium cost, it helps the coverage keep pace with rising long-term care costs, especially since many years may pass between the time the policy is purchased and when benefits are needed. Traditional policies might offer inflation protection, but all Partnership policies are required to include some form of inflation protection, according to the following guidelines.

For individuals who are:

- Under age 61 at the date of purchase: The policy must include annual compound inflation protection
- Ages 61-76 at the date of purchase: The policy must include some type of inflation protection (but not necessarily annual compound inflation protection)
- Age 76 or older at the date of purchase: The policy is not required to include inflation protection, but may offer it

Compound inflation protection increases the daily benefit each year, essentially increasing the amount of asset protection each year. Although Partnership policies in the original four states use a 5 percent inflation factor, new Partnership states have the discretion to use any inflation factor they choose.

For individuals age 61 or older, the type of inflation protection that may be offered will vary. One available option may be future purchase inflation protection. With this type of inflation protection, policyholders will periodically be given the chance to purchase an increased daily benefit with no health underwriting.

Tax-qualified policies

Long-term care policies offered under state Partnership programs must be tax qualified. Policies are considered tax qualified if they meet standards specified by the Health Insurance Portability and Accountability Act (HIPAA). Part or all of the premiums paid for a tax-qualified policy may be deductible as a medical expense from federal income taxes. Premiums may be deductible for policyholders who itemize and whose total qualified medical expenses exceed 7.5 percent of their adjusted gross income (AGI) for 2017 and 2018 (10 percent of AGI for 2019), up to certain age-related limits. In addition, benefits received will generally not be considered taxable income. State income tax deductions or credits may also be available.

Questions and Answers

If someone purchases a Partnership policy, will he or she automatically qualify for Medicaid?

No. Medicaid eligibility is never automatic. To qualify, an individual must meet state eligibility requirements. It's possible that even if someone exhausts his or her Partnership policy benefits, he or she will not qualify for Medicaid.

Do any residency restrictions apply to the sale of Partnership policies?

An individual purchasing a long-term care policy must be a resident of the state in which the policy is purchased.

What happens if someone purchases a Partnership policy in one state, then moves to another?

With Partnership policies, portability is a major concern. Although Partnership policy insurance protection is portable, asset protection is not. This means that if someone insured under one state's Partnership program moves to another state, he or she can receive Partnership policy benefits, but his or her assets will not be shielded from Medicaid recovery in the new state. Fortunately, most states that offer Partnership policies have decided to participate in a national reciprocity agreement that allows state residents to retain dollar-for-dollar asset protection in any other state that participates in the agreement, assuming they qualify for Medicaid in their new state of residence. States can opt out of participating, however, so individuals thinking about purchasing a long-term care Partnership policy should consider the laws of the state in which they currently reside, and, if possible, the laws of any state in which they plan to reside someday.

Will states with new Partnership programs automatically convert existing traditional long-term care policies into Partnership policies?

No. Federal law prohibits the grandfathering of traditional long-term care policies. However, some states may allow insurers to exchange existing traditional policies for Partnership policies.

Harmony Wealth Strategies
William F. McAllister, Jr., CLU®
22 Morgan Farms Drive, Suite 4
South Windsor, CT 06074
860-836-9314
Bill@HarmonyWealthStrategies.com
www.HarmonyWealthStrategies.com