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Medicaid and Long-Term Care Insurance

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What is long-term care insurance?

Long-term care insurance (LTCI) pays a certain dollar amount per day, for a set period, for skilled, intermediate, or custodial care in nursing homes and, sometimes, in alternative care settings, such as home health care. Because Medicare and other forms of health insurance do not pay for custodial care, many nursing home residents have only three alternatives for paying their nursing home bill: cash, Medicaid, and LTCI. In general, long-term care refers to a broad range of medical and personal services designed to assist individuals who have lost their ability to function independently. The need for this care arises when physical or mental impairments prevent one from performing certain basic activities, such as feeding, bathing, dressing, transferring, and toileting. These are normally called the activities of daily living (ADLs). Long-term care may be divided into three levels:

- Skilled care is "around-the-clock" care designed to treat a medical condition. This care is ordered by a physician and performed by skilled medical personnel, such as registered nurses or professional therapists. A treatment plan is drawn up, and it is usually believed that the patient will recover at some point.
- Intermediate care refers to intermittent nursing and rehabilitative care provided by registered nurses, licensed practical nurses, and nurse's aides under the supervision of a physician.
- Custodial care is designed to help one perform the activities of daily living (such as bathing, eating, dressing, etc.). It can be provided by someone without professional medical skills but is supervised by a physician.

How is LTCI useful as a Medicaid planning tool?

To qualify for Medicaid, both your income and the value of your other assets must fall below certain limits (which vary from state to state). In determining your eligibility for Medicaid, a state may count only the income and resources that are legally available to you for paying your medical costs. Consequently, a number of tools have been developed to shelter assets, including irrevocable trusts, life estates, and gifts. Each of these options, however, involves relinquishing your control over the assets (to some extent).

Purchasing an LTCI policy when you are healthy helps you maintain control over your assets until such time as you actually require care. Therefore, there is no need for you to divest yourself of assets years ahead of time. Indeed, even if you transfer away certain assets soon after you enter a nursing home and apply for Medicaid, your LTCI policy may cover your nursing home bills during the ineligibility period caused by the transfer.

Example(s): *Assume Marge is a 75-year-old widow who purchased a 60-month LTCI policy a few years ago. Marge enters a nursing home. At the same time, she transfers all of her assets into an irrevocable trust in order to qualify for Medicaid when the insurance benefits run out. Transferring "countable" assets into an irrevocable trust within 60 months of applying for Medicaid creates a waiting period or period of ineligibility for Medicaid, based on a formula set by the state. Without the LTCI policy, Marge would have no way to pay her nursing home bills for a period of time and would have to borrow the money or perhaps live at home with her children. However, Marge's LTCI policy covers her nursing home bills during the ineligibility period. When her insurance benefits run out, she will qualify for Medicaid.*

Caution: *This discussion pertains to traditional LTCI, but many states now have* long-term care partnership programs *that combine private LTCI with Medicaid coverage. Partnership policies 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. All policies are tax qualified. 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.*

When do benefits begin?

Most policies provide that benefits will be "triggered" by certain physical and/or mental impairments. The most common method for determining when benefits are payable is based upon your inability to perform ADLs. The most common ADLs are eating, bathing, dressing, continence, toileting, and transferring (getting from bed to chair, etc.). Typically, benefits are payable when you're unable to perform a certain number of the ADLs, such as two out of the six or three out of the six.

Some policies, on the other hand, will commence benefits only if your doctor certifies that the care is medically necessary. Others will also offer benefits for "cognitive incapacity" or mental incapacity, demonstrated by your inability to pass certain mental tests.

Caution: *Since many policies contain a waiting period or deductible period, your benefits may not begin the first day you enter a nursing home. These deductibles can range from a zero-day deductible up to a 365-day deductible, and naturally, a longer deductible means a lower premium. It also means you'll have to pay nursing home bills out of your own pocket for a longer period of time. So, if a nursing home in your area charges $200 per day, a policy with a 30-day deductible period will require you to pay $6,000 of your own money before the insurance will kick in.*

When you purchase an LTCI policy, however, you will be able to select the plan design that you desire (within the constraints of your budget). Thus, you'll be able to choose the waiting period (if any), the benefit amount, and the benefit period.

What do LTCI policies cost?

Your yearly premium for an LTCI policy depends on a number of factors, including your age when you purchase the policy, the length of the coverage period (for instance, three years, five years, or lifetime benefits), the amount of the daily benefit provided, the range of care provided, and whether you purchase inflation protection or other optional coverages.

When buying an LTCI policy, you must consider not only whether you can afford to pay the premium now, but also whether you'll be able to continue paying premiums in the future, when your income may be substantially decreased.

What should you look for in an LTCI policy?

Duration of benefits

When purchasing LTCI, you'll be asked to select a benefit period. Benefit periods generally range from one to six years, with some policies offering a lifetime benefit. You'll want to choose the longest benefit period you can afford. If you can't afford a lifetime benefit, consider choosing a benefit period that coordinates with the look-back period for Medicaid (five years).

Nursing home daily benefit

Most policies let you choose the amount of coverage, typically running anywhere from $40 to $150 or more per day. Of course, the greater the daily benefit and the longer the benefit period, the more the policy will cost. Because the formula for determining the Medicaid ineligibility period (if any) is based on the average cost of nursing homes in your locale, you should ascertain this figure. Certainly, it wouldn't make sense to purchase a policy with a daily benefit of $50 if the average daily cost of nursing homes in your area is $150 per day.

Additionally, you should consider whether you plan to remain in your present state or whether you plan on moving to another state at some point in the future in order, for example, to be closer to your children.

Optional inflation rider

Although the average daily cost of nursing homes in your locale may be $200 today, it could be significantly more five years from now. Therefore, an inflation rider is very important. The younger you are when you buy an LTCI policy, the more important inflation protection will be. Unfortunately, an inflation rider may significantly increase the policy cost.

Range of care

Review the policy carefully to determine what expenses are covered. A very comprehensive LTCI policy will cover skilled care, intermediate care, custodial care, home care, adult day care, and even alternative care (assisted living). Most policies will cover skilled, intermediate, and custodial care.

Home health care can be an important consideration, because most people prefer to live in their own homes for as long as possible.

Home care makes sense when, for example, you're recovering from a stroke, broken bone, or illness and don't need lifetime care. It is also useful if you're living with your children and require the services of a nurse or home health aide a few times a week. It's generally a good idea to insure for at least a one- or two-year home health care benefit period.

Pre-existing conditions

A pre-existing condition may be defined as a medical condition for which you sought medical advice or treatment (or regarding which you experienced symptoms) within a specified period of time, such as one year or five years, before applying for the LTCI policy. Although some companies may ignore pre-existing conditions, others may refuse to pay for treatment related to those conditions. Often, however, insurance companies will impose a waiting period on you before your coverage will go into effect for treatment of pre-existing conditions. Typically, you'll have to wait up to six months before that condition is eligible for coverage.

Even though some companies will not require a medical examination before issuing your policy, it is still necessary that you truthfully disclose any pre-existing conditions. Otherwise, your company can refuse coverage for that condition or terminate your coverage altogether.

Other exclusions

Read the policy carefully to ascertain what isn't covered. For instance, since Alzheimer's disease, senility, and Parkinson's disease are common reasons for long-term care, make sure that your policy doesn't exclude these conditions. Also, most policies will not pay benefits for a person who has an alcohol or drug addiction, an injury caused by an act of war, or injuries that were self-inflicted or resulted from attempted suicide.

Premium increases

Most policies provide that your premiums will not increase unless the rates for everyone in a given class are increased. Your own premiums cannot be increased simply because of your age, health status, or claims experience. However, rates for the entire class you're in (e.g., the class of 70-year-old retired autoworkers) may be adjusted, based on claims experience.

Guaranteed renewability

When LTCI was introduced, it was a conditionally renewable contract. This gave the insurance companies discretion to cancel policies and/or raise rates. Most policies now are "guaranteed renewable" as long as you pay your premiums, so do not purchase a policy that is renewable at the option of the insurer. The insurance company should guarantee that it will offer you the opportunity to renew the policy and maintain the coverage. The company cannot condition the renewal on evidence of your insurability (i.e., good health). All LTCI plans which qualify for deductibility for federal income tax purposes are guaranteed renewable.

Waiver of premiums

An important feature of your policy may be the waiver of premium provision. This provision allows you to stop paying premiums once you are in a nursing home and the insurance company has started to pay benefits. Although some companies will waive your premium as soon as they make the first benefit payment, others may wait up to 90 days. A good contract will waive premiums based on the use of home health care as well, but read your contract to be sure.

This provision can be especially important to a potential Medicaid applicant since it is likely that you will be unable to afford extended nursing home premiums if you've transferred your assets away as part of an asset protection plan.

Grace period for late payment

A good policy should provide a one-month grace period during which the policy will remain in effect if you are late paying the premium. Absent such a grace period, your policy could be canceled immediately.

Return of premium

Some companies offer return of premium or nonforfeiture benefits for individuals who cancel their policies after paying premiums for a number of years. For instance, a policy might return nothing if canceled within the first five years, 15 percent of the premium after five years, and perhaps all of the premium after 35 years. However, adding a return of premium rider to your policy may significantly increase the policy cost.

Prior hospitalization

Beware of policies that require you to have a hospital stay of at least three days before qualifying for LTCI benefits. This requirement is very restrictive and can greatly limit your ability to receive any benefits under your policy if you require only custodial care.

How should you compare providers?

It's important to check out the financial strength of the companies in which you're interested. You can determine a sound investment by reviewing your company's A. M. Best and Company's rating, along with the opinions of other rating services such as Moody's or Standard and Poor's, at your local library. You should select a company that has received a rating of A or A+ from A. M. Best. Of course, you can also request a copy of the firm's annual report.

What are the tax ramifications?

Federal law generally allows you to treat all or part of the premium for a tax-qualified long-term care insurance contract as a medical expense. As a consequence, the portion of your LTCI premium treated as a medical expense should be deductible for federal income tax purposes. To claim a tax deduction, you must itemize your deductions and the total of your medical expenses (including the applicable portion of any LTCI premiums) must exceed 10 percent of your adjusted gross income (7.5% for individuals age 65 and older).

Caution: *In 2013, the threshold to deduct medical expenses was raised from 7.5 percent of adjusted gross income to 10 percent, but the threshold increase will be delayed until 2017 for those age 65 or older.*

Caution: *Most, but not all, long-term care contracts are tax qualified--your policy must meet certain federal standards. For more information, see IRS Publication 502, Medical and Dental Expenses.*

Tip: *Benefits you receive from a tax-qualified LTCI policy generally are not subject to income tax; they are treated as excludable benefits received for personal injury and sickness. However, benefits received from a policy that is not tax qualified might be subject to income tax.*

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