Planning for Long Term Care

Long-term care costs can deplete your assets at an alarming rate. Many people will enter a nursing home during their lifetime where they will incur the average monthly cost of $13,000 for an average stay of 2.5 years. To make matters worse, you may have spent the majority of your life working and building your assets so that your retirement will be well funded, yet retirement comes at a time when the possibility of catastrophic illness is more likely. Planning ahead will mean the difference between spending your assets to finance any needed care and preserving your assets for your family.

Despite popular belief, nursing home care is not paid for by Medicare or Medicare supplemental insurance. While Medicare may provide benefits for rehabilitation for a short time, once Medicare benefits end, if you are not then able to return home and must remain as a resident of the nursing home, another source of payment must be found. Medicaid benefits are available to help pay for nursing home care, but they are only available once eligibility requirements, which include strict asset limits, have been met.

Changes in Medicaid law that took effect in 2006 have significantly reduced last minute asset protection opportunities. While there are still a few beneficial options available if you fail to plan ahead, they apply only in very specific situations. The only surefire way to maximize the assets protected for your family is to begin planning at least five (5) years prior to a nursing home admission.

Assuming that five (5) years will pass before your admission to a nursing home, a gifting plan may be considered. When applying for Medicaid benefits, MassHealth will look at the five (5) year period immediately preceding the application to determine if you made any gifts. If gifts are found within this time period, a penalty period will be assessed, during which time MassHealth will not pay any Medicaid benefits on your behalf. If at least five (5) years and one (1) day have passed since the gift, under the current rules, the gift will not need to be reported. Hence, no penalty period will be assessed. A gifting plan may consist of outright gifting, usually to your children, or gifting to an irrevocable trust that can provide you with income until you pass away. You must also plan for the possibility that you will require long term care within five (5) years before beginning any gifting. Gifting may also have serious tax consequences that should be discussed before proceeding.

You might also consider purchasing assets that will not count toward the asset limit for Medicaid benefits. Examples of non-countable assets include an irrevocably prepaid funeral, a burial account of no more than $1,500, a car, term life insurance, and in some cases, a home. The payment of outstanding debts, such as a mortgage or credit card balances, can also be beneficial in some cases.

If you are presently being cared for by a child, you might consider establishing a paid care agreement with your child. You would then pay your child for the care provided to you according to the terms of the agreement. As you pay for care, you would be purchasing the services provided instead of gifting. You would also be benefiting your child by providing your child with additional income. These agreements must be reasonable and fair to you and your child.

Aside from planning to obtain Medicaid benefits, obtaining long term care insurance can alleviate the draining of assets and provide increased financial stability. It is also possible to purchase life insurance that contains a long term care rider, such that the death benefit can be converted to long term care insurance benefits if you find yourself in a long term care facility. Long term care insurance will pay for nursing home care according to the benefits purchased. A wide range of policies is available, including unique combinations of benefits and pricing structures. It is possible to buy a policy that will also pay for assisted living, home health care expenses, and geriatric care management. To purchase long term care insurance, you must be insurable, which means not having a health condition that would prevent the insurance company from insuring you.

The planning strategies mentioned in this article are extremely complex. This article is intended to raise awareness of possible planning opportunities, but a full discussion of the pros and cons of each possibility has not been provided. If you are concerned about protecting assets, it is highly recommended that you seek the advice of an elder law attorney before proceeding.

Gina M. Barry is a Shareholder with the law firm of Bacon Wilson, P.C., Attorneys at Law. She is a member of the National Academy of Elder Law Attorneys, the Estate Planning Council, and the Western Massachusetts Elder Care Professionals Association. She concentrates her practice in the areas of Estate and Asset Protection Planning, Probate Administration, Guardianships, Conservatorships, and Residential Real Estate. Gina may be reached at (413) 781-0560 or gbarry@baconwilson.com.