

Long-term care partnership programs

By Melissa Barnickel, CPA, CLTC

The passage of the Deficit Reduction Act of 2005 made long-term care (LTC) insurance more valuable to the consumer by offering asset protection during Medicaid eligibility determination and during estate recovery. Partnerships are designed to encourage individuals to purchase private LTC insurance to fund their LTC needs, rather than relying on Medicaid to do so. Virginia has already approved partnership policies. Maryland and the District of Columbia are expected offer such policies within a year.

What is the Medicaid asset protection?

Medicaid asset protection allows a portion of assets, which would otherwise have been spent down to determine eligibility for Medicaid benefits, to be retained. A partnership-qualified policy protects a dollar of personal assets for every dollar the policy pays out in benefits. The total assets retained as a result of a partnership-qualified policy are above and beyond all the regular resource allowances under the Medicaid program, including any assets the community spouse may be allowed to keep.

In Virginia, the policyholder is not required to use all the benefits of the long-term care insurance prior to receiving dollar-for-dollar asset protection. Medicaid will take a snapshot at the time of application, and only what has been paid out to that date will be considered for asset protection. Nothing past the date of Medicaid application paid out by the insurance carrier will count towards the dollar-for-dollar protection. The policyholder is still required to apply income toward the cost of long-term care in accordance with state Medicaid requirements. Maryland does not yet have partnership-qualified policies available. Asset protection details vary by state.

Example of dollar-for-dollar protection

A policyholder receives \$100,000 in benefits for his or her care and has \$150,000 in additional assets. He or she applies to the Medicaid program for assistance. One hundred thousand dollars (the amount the insurance policy paid in benefits) of assets are disregarded dollar-for-dollar during the Medicaid eligibility determination process.

What makes a policy partnership-qualified?

- The policy must state that it is partnership-qualified.
- The insured must be a resident of the state at the time the policy is issued. Reciprocity standards have not yet been published and states may opt out.
- Inflation protection: Ages up to 60 must have compound; for ages 61-75, some form of inflation is required; for ages 76 and older, no inflation is required.
- Premiums are the same as non-partnership. Agents are required to obtain specific training on partnership plans.

Does a partnership-qualified policy retain its status permanently?

No, not if inflation is reduced below the minimum standards, the residents move to a state that does not have the same partnership program, the state does not recognize your partnership-qualified policy, or state and / or federal laws change and the partnership program is modified or discontinued at a future date.

There are disadvantages to partnership-qualified plans

- Income is not protected, so if the policy owner is married and has substantial monthly income, a longer benefit period is strongly recommended. In addition, income is still used for care, even when you qualify for Medicaid based on the assets.
- Inflation protection for those 60 years old and younger is required to be compound, and this rider often doubles the cost of the policy. If cost is a concern, simple inflation may be a more economical option. When recommending the level of benefit to your clients, look at what the benefit amount will be when you are 83 years of age, which is why I recommend compound inflation to age 69.

What if a client has a LTC insurance policy: Can it be converted to a partnership-qualified?

No grandfathering of existing policyholders is allowed. However, exchanges will likely be allowed by participating states within guidelines to be established.

Should clients wait for partnership policies to be approved in my resident state?

No, LTC insurance is a medically underwritten policy. Premiums are based on the age and health at the time of application. You are healthy until you are not.

The need for long-term care planning is supported by the following: People are living longer. Living a long life creates the likelihood of needing care over a period of time. Medical advances will enable people to live longer, even when they get sick. The consequences of not planning for the long-term care will not only affect the persons who are ill, but their families as well.

With a policy, families can enjoy quality time with the persons receiving care, instead of actually providing the care. A financial plan that does not address long-term care is incomplete. Long-term care insurance creates financial certainty and enhances family stability by providing funds to protect retirement assets and reduce the physical and emotional strain of caregiving.

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