Financial Planning for Long Term Care

Decades ago, it was common for the elderly to remain in the family home and be cared for by their extended family. Often the elderly owned the family homestead that provided shelter for their children and grandchildren. In exchange, the elderly received the care and attention of their extended family. However, in modern times with smaller families that are more independent and spread out across the country, along with the rise of dual wage earner couples whose jobs prevent them from caring for elderly parents, the population of the elderly placed in nursing homes and long term health care facilities increased.

The change to caring for the elderly at skilled nursing facilities came at great expense to the individuals in need of the care, as well as the state and federal governments that pay for those costs when the needy no longer could. The average cost of care in a nursing home in Connecticut today is over $150,000 per year, and the question remains – how will that cost be paid? Those who have the means purchase long term care insurance to help defray the cost, while a select few have enough wealth to independently support the cost of their care. Lacking those options, a person in a long term care facility is faced with utilizing their assets to pay for those costs, and once those assets are depleted, the government's Medicaid program (sometimes referred to as Title XIX) will step in to pay the expense.

Medicaid is a federal program run by state governments that provides for payment of skilled nursing facility care costs for those who don't have the resources to pay. To qualify for Medicaid benefits in Connecticut, you can only retain certain "exempt" assets plus $1,600 of non-exempt assets. Married couples are generally treated as one financial unit for Medicaid purposes, and Congress continually refines the Medicaid program to make it more difficult to qualify.

Studies show it's generally less expensive to care for the elderly at home. With huge amounts of tax dollars at stake, Congress and state governments have initiated programs and incentives aimed at reversing the prior trend of placing the ill and elderly in nursing homes. Years ago they changed the Medicaid rules to allow many elderly to retain ownership of their personal residence while still qualifying for certain Medicaid benefits. As long as there is an intent and ability of the person to return back home, Medicaid does not force the sale of or take away the home of a Medicaid participant. This is particularly important for a married couple, one of whom remains in the residence while the other is in a skilled nursing facility. In Connecticut, the residence is an "exempt" asset as long as the equity in the residence does not exceed $893,000. This means the

primary residence of a married couple, one of whom remains in the residence, is rarely treated as an available asset for Medicaid purposes and will not be required to be sold to qualify for Medicaid benefits.

The rules also allow the spouse who remains in the community to retain a certain amount of other assets. In Connecticut, the community spouse may retain 50% of the couple's *countable* assets, with a minimum retention of $25,728 and a maximum retention of $128,640. As explained previously, the residence may not be a countable asset, and other non-countable assets include personal effects, furniture, household items, a vehicle, a burial plot, and a prepaid funeral contract with a maximum value of $10,000. Unfortunately, many people liquidate or spend down all their assets without realizing that certain assets are exempt, so proper planning is important.

Congress has been acutely aware that many individuals facing long term care costs transfer their assets to their family or loved ones in an attempt to qualify for Medicaid. This shifts the burden of paying for their care away from their families and to the government. As a result, Congress implemented rules designed to prohibit Medicaid qualification if assets were transferred in an attempt to qualify for Medicaid. Currently, if assets are transferred for less than fair market value (meaning as a gift or part gift), then the applicant incurs a penalty and is not eligible for benefits for a period of time. This transfer rule applies to gifts made within five years from the date the applicant applies for Medicaid benefits. Transfers made before five years from the date of application aren't reviewed by Medicaid, so early planning for extended family retention by those with heirloom assets such as waterfront property or second residences, or any asset for that matter, is critical.

The gift tax exemption rule is often confused with the Medicaid five year transfer rule. The IRS allows any individual to gift up to $15,000 per year to any other individual without having to report it. However, that is a gift tax rule, not a Medicaid rule. A transfer of $15,000 made at any time within five years from the date of the Medicaid application would still result in a penalty period for the Medicaid applicant.

The best time to consider long term care planning is well before you have the need for it. When the need for skilled nursing care is imminent, one's options for protecting assets are reduced. However, if imminent care is required, many mechanisms may still be implemented to try and preserve your assets, such as transfers to a spouse, transfers to a disabled child or to a trust for a disabled child, transfer of your personal residence to a child under 21 or a child who has been caring for you and resides in your residence, or a transfer of your residence to a sibling who owns an interest in the residence and also resides there.

No one can predict whether you or a family member will require a long term stay in a nursing home, however, one in four eventually do. Proper planning can provide peace of mind and assist in minimizing the amount of your assets used to pay for that care should it become necessary.

Stephen F. Sutton is a partner in the estate planning, tax, and elder law department at Kahan Kerensky Capossela in Vernon, CT. He is a member of the National Association of Elder Law Attorneys, has a master's degree in Estate Planning and Elder Law, and is also a CPA. He can be reached at 860-812-1740 or at ssutton@kkc-law.com.