
The Long View on Long-Term Care

With Americans living longer than ever before, more and more of us are confronted with the possibility that we will outlive our money. Decreasing income from work, increasing medical costs and the likelihood of additional expenses for in-home health care or nursing home care only add to the problem. For the past forty years, Medicare and Medicaid have picked up much of the slack. Changes to the tax laws over the past few years will now prevent many families from relying on this safety net.

The Deficit Reduction Act of 2005 (DRA) contains a number of provisions that are only now coming to light. Perhaps the most significant for families with aging members concern changes to federal Medicaid rules. Combined with other proposed changes to these rules, many people will find it difficult to apply for and receive Medicaid assistance.

Here's a summary of the most significant changes currently on the horizon:

DECREASE IN NON-EXEMPT ASSETS

Under the new rules, Medicaid applicants must now spend down their non-exempt assets to \$4,150 prior to even applying for the program. For most individuals, this is at best a couple of months' worth of living expenses.

DECREASED EXEMPTION FOR PERSONAL RESIDENCES

The former rules exempted personal residences from consideration as an asset, by Medicaid regardless of value. Proposed new rules will limit the exemption to home values

of up to \$750,000; any value above that will no longer be considered exempt, and must be disposed of under the spend-down rules. This means that, without proper planning, many people will be forced to sell their homes or take out reverse mortgages in order to pay their medical bills.

Exemptions may be available under the proposed rules for individuals whose spouse or children under the age of 21 are living in the home. In this event, though, estate recovery provisions may apply.

INCREASED LOOK-BACK PERIOD

In order to retain some assets, such as homes, many families adopted a strategy of transferring the assets from the aging person to a younger family member. This strategy hastened the person's eligibility for Medicaid without threatening the asset.

Under the prior law, the look-back period was 36 months, measured by the time that asset was transferred. This meant that families needed to see only three years into the future, when planning. Even if an aging family



member was already ill, the family could count on having to pay for nursing home or other care for just those few years before that person would qualify for Medicaid.

The new law drastically changes all that. The look back period has been expanded by two years, to 60 months. In practical terms, families now have to project five years into the future – and be prepared to either transfer assets early or pay out of pocket for almost twice the amount of time.

Obviously, this will make it far more difficult for families to anticipate the need to execute an asset transfer. Additionally, any transfer occurring within the look-back period must be thoroughly documented and explained to Medicaid.

THE BOTTOM LINE

These and other anticipated rule changes will increasingly prevent middle class and moderately well-off families from taking advantage of Medicaid to defray rising eldercare and medical costs. While families with aging members will be most affected, every family is vulnerable. Illness or accidents of all descriptions can strike at any time and cause long-term disability and threaten the family's financial stability.

Careful planning that considers every possible issue is now essential. Well-executed strategies can guard against the loss of key assets – such as homes – and financial disaster. In many situations, long-term care insurance could be a key strategic element. A wide variety of such policies is currently available and premiums may be tax-deductible up to certain limits.

Speak to us today about how to protect your family – and your assets.



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