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Medicaid eligibility tightening sparks debate over LTC

By Charles Paikert

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NEW YORK - Long-term-care insurance has emerged as a hot-button issue as financial planners and elder-care experts debate the ramifications of a new law that makes it harder to qualify for Medicaid-paid nursing home care.

The recent Deficit Reduction Act extends the critical Medicaid eligibility "look back" period for all asset transfers to five years, from three years, and lengthens the penalty period for assets that already have been transferred.

As a result of these and other tightened restrictions on Medicaid eligibility, many planners and elder-care experts say that financial advisers and their clients have little choice but to consider long-term care.

Other specialists, however, caution that elderly people and baby boomers should be wary of the high cost and complexity of such policies.

The new law will force financial planners to re-evaluate their tactics and strategies for clients preparing for retirement and old age, said Tom O'Hare, adjunct professor of insurance at The American College in Bryn Mawr, Pa.

"Financial planners will look on long-term-care insurance as a more effective vehicle to plan for long-term needs," he predicted.

'Nightmare' law

Michael Schulman, a certified public accountant/personal financial specialist with Schulman CPA of Central Valley, N.Y., agrees, characterizing the law as a "nightmare" that "should sell a lot of long-term-care insurance."

Nonetheless, sorting out the complexities of various LTC plans is worthwhile, added Mr. Schulman, who also serves on the New York-based American Institute of Certified Public Accountants' Prime Plus/elder-care task force.

"You can take the uncertainties of long-term-care costs and recast them into fixed dollar amounts that are available if and when you need them," he said.

The cost can be considerable, however, with annual premiums of between $2,000 and $5,000, according to insurance experts.

"It can be a very expensive proposition," said Dan Taylor, founder and president of The Parent Care Solution LLC of Charlotte, N.C., and author of "The Parent Care Conversation," set to be published this fall by New York-based Penguin Books. "Long-term-care insurance has to be considered, but it can't be the only answer, because I don't believe anybody has a handle on health-care costs in the future."

But Ed Pittock, president of the Denver-based Society of Certified Senior Advisors, maintains that, weighed against the care and peace of mind that long-term policies provide, the insurance is "not that expensive."

Because lower-income elderly people probably would qualify for Medicaid anyway, he said, high LTC premiums are a moot issue for them. But affluent clients would be hard hit by such provisions in the new law, which makes individuals with home equity above $500,000 ineligible for Medicaid nursing-home care, Mr. Pittock pointed out. States may raise that amount to $750,000.

For the wealthy, "it's a matter of comparing the out-of-pocket expenses of long-term care, versus the insurance premiums for long-term care," Mr. Pittock said.

"If you can afford the premiums, that's probably going to be a better deal," he said. "The real problem when evaluating long-term-care insurance is that we just don't have enough history yet."

In addition to igniting a debate about long-term care, the Deficit Reduction Act also has spurred calls for earlier meetings between planners and clients, and increased interaction between planners and the children of their clients.

'The earlier, the better'

"The biggest takeaway from the new law is that financial planners should get clients in earlier to do their planning. Clients always want to wait, but now they better not," said Bernard Krooks, a New York-based elder-law and estate-planning attorney who testified before Congress about the Medicaid eligibility provisions in the legislation.

"It's all about jump-starting the process," said Robert Barnhill, an attorney, CPA and certified financial planner based in Lubbock, Texas. "The new law has made it even more important to start planning - the earlier, the better." Planners also "need to be having conversations with the adult children" of their elderly clients, said Mr. Krooks, a partner with Littman Krooks LLP of White Plains, N.Y. As elderly people come to grips with what they can and can't do with their money as a result of the longer look-back time frame, their children will become involved in the process increasingly earlier, he said.What's more, children of the elderly may be held increasingly liable for their parents' long-term-care debts, Mr. Schulman said.

The potential downside for planners is the potential for lawsuits brought by clients' children for "not protecting [the clients'] inheritance assets," Mr. Taylor said.

Others argue that the upside is the potential for clients' children to become clients themselves.

More work

No matter what happens, planners and clients can count on having to do more work, elder-care experts agree. "It's pretty clear that the government and employers are going to do less, and individuals are going to have to do more," Mr. Barnhill said.