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Act Affects Health Care, Home Equity

What were you doing February 8? You may not have noticed, bu t something occurred which could dramatically affect what will happen to the home you have paid off or are working to pay off.

On February 8, the Deficit Reduction Act of 2005 was signed into law. The government knows the over-60 population is mushrooming. According to AARP, 330 people per hour are having sixtieth birthday parties. That is close to 50,000 folks per week. Many of those people will be needing some form of rather expensive, long-term health care. And how will it be paid for? The new DRA says Medicaid eligibility will get much tougher.

This is being done to save billions of dollars that the government is paying out for nursing homes and similar facilities. It changed the "look back" period from 36 months to 5 years. What that means is that, before you are eligible, you must show all asset transfers to family members made over the last 60 months. If you made substantial transfers, you will be penalized the appropriate number of months before you will be eligible. It also clearly says that home equity can be a countable asset if the state says so and specifically addresses home equity of over $500,000 as a requirement for the healthy spouse to sell the house to pay for care for the spouse in the nursing home.

Attorneys are already warning of the implications of this act. Harry Margolis, president of elderlawanswers.com said, "Adult children of elderly parents in many states could be held liable for their parents' nursing-home bills and those children could even be subject to criminal penalties. It could be a horror show."

Bernard Krooks, founding member of Littman Krooks in New York, said, "So, it's critical that seniors get their affairs in order immediately while they still have the opportunity."

We are in a different world today and it won't be getting easier. By 2012, 10,000 Americans will turn 65 every day. While it appears the government is being "cheap," the fact is there really is not a choice but to force seniors to pay for more of their long-term care costs.

Many seniors know there is a solution that can at least help with one of the largest assets a home that would be vulnerable under the new Medicaid law. Reverse mortgages decrease the amount of equity in a home and allow that money to be spent under different rules because it is borrowed money. Of course, a reverse mortgage requires no payments for life to anyone over the age of 62. Yet it allows access to the cash today, even though a payment likely will not be made for decades in the future. There is not a look back period on reverse mortgages and the government encourages them by guaranteeing you through the Federal Housing Administration can never owe more than what your home is worth, even if there is a decrease in home values.

There are really only four places for your home equity to go: to your own enjoyment and lifestyle expenses, to the IRS for estate taxes, for long-term health care costs or to your children when you no longer need the home. A reverse mortgage gets the money into your hands or the children's hands, which is likely what your original goal was. Quite frankly, under the new laws, the worst thing you can have is a nice home with no mortgage when you need to sign up for long-term health care.

There is no magic bullet, and you should always consult with an experienced estate planning attorney, but a reverse mortgage can certainly be one of the tools that will allow you to direct how your money is paid out. The crisis continues in health care costs, and it is up to you to be prepared by consulting professionals who can help you accomplish what you want with your hard-earned money.

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