Medicaid Qualification: How to Keep Your Money Away From the Nursing Homes

Submitted by Galen Weston on Mon, 06/22/2009

Tags Used: Estate Planning

I am sure that many of you out there are aware that the average private pay cost of a nursing home is well over $6,000 per month. It is therefore very important that we understand the various strategies that the law provides in order to qualify for Medicaid so that the State of Illinois would pay for a senior's nursing home costs.

Medicare is NOT Medicaid

First understand that Medicare is not Medicaid. Medicare pays for doctors and hospitalization and a very limited nursing home stay (only when a patience spends at least three days in a hospital and then goes directly into the nursing home will Medicare pay for up to 100 days). Medicare does NOT pay for nursing home costs.

LTCI is Best

Long Term Care Insurance is the best way to protect your money from an eventual nursing home stay. A good LTCI policy can pay for all costs associated with a nursing home or an in home stay. However, once a senior is in a nursing home or even above 70 years of age, they are usually no longer able to obtain long-term care insurance. Unfortunately, most of the people who buy long-term care insurance are the children of private pay nursing home residents who are watching their inheritance be paid to the nursing home each month.

Medicaid is Complicated

Explore AdvisorWorld.com

- About Us
- Advisors BLOG
- Ask a question
- Community Guidelines
- Contact Us
- Frequently Asked Questions
- Management Team
- Press Releases
- SiteMap
- Top Contributors

Recent Blogs

- The Dirty Secret about Term Life Insurance
- SUCCESSFUL FINANCIAL RETIREMENT
- Capital Management Arbitrage
- THE ROTH IRA BOOM, WHY YOU SHOULD BE A PART OF IT! By Mitchell B. Storfer
- Are Baby Boomers as Prepared as their Parents for Retirement? By Mitchell B. Storfer
- What Phase of Retirement Income Management Are You In?
- The Three Phases of Retirement Management
- Converting Retirement Assets from a Traditional IRA To a Roth IRA Presents a Unique Opportunity for 2010
- Retirement Planning: Have a Plan B to Avoid Possible Roadblocks
- What if I Don't Believe in Death?

Medicaid law is very complicated so what follows is a very basic explanation of some of the rules and strategies that are available to help a senior qualify. These are the basic Medicaid qualification rules for an individual in Illinois. There are other rules that govern a married couple and different states may have different rules.

A person seeking Medicaid government benefits must be over 65 years of age or blind or disabled, must be a US citizen, must be in need of care (you can't say that you have a bum knee and want the government to pay for your nursing home care). Your income must be less than the nursing home costs. For example, if the private pay cost of the nursing home is $6,000 per month and a senior receives $8,000 a month from a large pension, they would not qualify (Medicaid would say to use your money to pay for your care). Finally the senior must have assets less than $2,000. This is what Medicaid calls "impoverished."

Let's take a hypothetical analysis for a single person in Illinois. In our case Archie Bunker died 4 years ago. Edith is 80 years old and lives in the house. 3 years ago Gloria, their daughter, moved into the house to take care of Edith. Edith's son (not son in law) Michael lives out of town and visits occasionally. Edith has entered a nursing home and has just paid $6,000 for her first month. She wants to qualify for Medicaid so that the state will pay the nursing home costs.

Edith's assets consist of a house with no mortgage worth $500,000 and bank accounts and CDs worth $300,000. She has no other property. So her total assets are $800,000. Her total at risk, (that is the total she would have to pay for her own nursing home care if she did no planning) is 798,000 (remember she is allowed to keep $2,000). Note that the house is also at risk because what Medicaid would do is to tell Edith to spend $298,000 of her $300,000 cash on her care and then when she only has $2,000 remaining she can qualify for Medicaid. At that point the state would begin paying for her nursing home care costs and would record a lien against her home with the county recorder of deeds. The lien would be for the extent of the nursing home payments. For example, if Medicaid paid for her for four years at the rate of $50,000 per year then when she, or her estate after she passes away, sells the home she would owe $200,000 to the state. Finally, Edith has $1,500 in monthly income from her social security and her pension.

For this illustration we are going to use four different strategies to protect over 92% of Edith's estate. Remember she starts with $800,000 and she is allowed to keep $2,000.

1) Gift of House to In Home Child Caregiver

The first thing we do is to transfer the house to her daughter Gloria. The rule is that a senior is allowed to give his/her house to a child that had been living in the house and providing care for the senior for two years prior to the senior going into the nursing home.

2) Convert Countable Assets to Non-Countable

The next strategy is to convert some of Edith's assets into non-countable assets. So we will have her purchase a car for $25,000 (which Gloria can drive) and prepay her burial expense for $10,000.

3) Personal Care Contract (PCC)

The next strategy is to have Edith make a personal care contract with her daughter Gloria. The rule is that a senior can pay a child in advance to take care of him/her for the rest of his/her life (as given in IRS tables). For example Edith can pay Gloria at a rate of $20 per hour and 20 hours a week ($400 a week) or $20,800 per year. If Edith's life expectancy is six years then she can write a check to Gloria for $124,800 (6x$20,800) and Gloria will sign a detailed contract to take care of her mother. This $124,800 is not considered a gift to Gloria because her mother is paying for services.

4) "Reverse Half-A-Loaf" Method

The next strategy is referred to by elder law attorneys as the "Reverse Half-A-Loaf" method (why it has this funny name is beyond the scope of this article). Using this strategy, Edith will give her son Michael a gift of $80,000. The way Medicaid looks at this gift (called an "uncompensated transfer") is to give Edith a "penalty period" equal to the amount of time that she could have used this money for her care (i.e, gift/monthly cost of nursing home) This comes out to a little more than 13 months ($80,000/$6,000) at that point Edith would be able to qualify for Medicaid. In the meantime Edith would purchase a single premium immediate annuity (SPIA) for $58,200 the income of which will pay for her care (which is $6,000 - $1,500 income for a cost of $4,500 each month) until she qualifies for government benefits. This is the only amount Edith will pay for her care. (It must be stated that it is important to pay attention to the timing of the gift relative to the application for Medicaid).

All in all we have protected over to 92% (739,800) of her estate for her family. ($500,000 house to Gloria, $35,000 converted to non countable, $124,800 to Gloria as a PCC and $80,000 to Michael as a gift). As we said before, with no planning Edith would have to spend almost all of her cash on her care and she would then be hit with a lien on her house.

As I stated before, this area of law is very complicated and each case has to be analyzed for its own nuances. However with proper planning and working with an experienced elder law attorney, a person can save most of their estate from being paid to the nursing home.

Bill Kanter J.D., M.B.A. has over 15 years of experience in the field of elder law and estate planning. He is a member of the National Academy of Elder Law Attorneys and the Illinois State Bar Association. His firm is Complete Estate & Retirement Planning. He can be reached at 847-674-6470 or bill@completeerp.com or visit his website www.completeerp.com

Read ALL Blog Posts by gweston Login or register to post comments