Long-Term Care Partnership

Private insurance is one of a number of ways that individuals who require long-term care (LTC) are able to pay for the needed help. In 2011, for example, such private coverage provided 8.3% of the funds spent on nursing home care in the U. S. In contrast, Medicaid, the joint federal-state program that provides medical care for the impoverished of our nation, paid for 30.9% of the nation's nursing home care.[1]

Long-Term Care Partnership Program

In a LTC Partnership program, a state government and private health insurers work together to make available to residents of that state LTC insurance policies that are "linked" to Medicaid. If a buyer of a Partnership LTC policy later faces long-term care needs that exceed the policy's limits, he or she may apply for assistance from the state's Medicaid program under more relaxed eligibility rules. In what is termed an "asset disregard," the policy owner may keep a larger amount of assets than would normally be allowed under standard Medicaid rules. In many states, for example, an unmarried Medicaid applicant may keep only $2,000 of assets and his or her estate can be subject to a post-death recovery claim by the state.

These relaxed eligibility rules apply only to the amount of assets that an individual can retain; all other normal Medicaid qualification requirements apply.

Example: Susan, a single woman, purchases a Partnership LTC policy which provides benefits up to lifetime maximum of $100,000. She later receives benefits under the policy, up to the policy's maximum of $100,000. Susan continues to need care and she applies for, and is found to be eligible, for Medicaid. Because she had first received benefits through a Partnership LTC policy, she is allowed to retain $102,000 in assets and her state will not seek to recover that amount after her death. Susan would otherwise have been required to "spend-down" her assets until they totaled only $2,000.

The formula used to determine the amount of assets that a Medicaid beneficiary may keep varies from state to state. In the dollar-for-dollar formula, the amount of assets that may be retained is equal to the dollar amount of benefits received from the Partnership LTC policy.

[1] Source: Centers for Medicare & Medicaid Services, Office of the Actuary, National Health Statistics Group; U.S. Bureau of the Census. National Health Expenditures: Selected Calendar Years 1970 – 2011.

In some states, a total asset protection formula is used; a purchaser of a Partnership LTC policy in these states effectively protects all of his or her assets when applying for Medicaid. Generally, Partnership LTC policies in total asset protection states are more comprehensive and cover a longer period of time. In a few states, consumers have a choice of which approach they wish to use.

In an effort to encourage individuals to purchase long-term care insurance, the U.S. Congress included in the Deficit Reduction Act of 2005 (DRA 2005), legislation to expand the long-term care insurance partnership program to all 50 states. Under earlier legislation, LTC Partnership programs had been operating in four states (California, Connecticut, Indiana, and New York) for a number of years. Long-Term Care Partnership

Partnership LTC Policy Qualifications

DRA 2005 established certain standards that all qualifying Partnership LTC policies must meet, including:

- **Insured a state resident:** The insured must be a resident of the state the policy was issued in at the time the coverage is effective. If the policy was received in exchange for a policy issued earlier, the insured must have met the residency requirements at the time the first policy was issued.
- **Tax qualified[1]:** Partnership LTC policies must meet the requirements of IRC Sec. 7702B(b). Under this federal tax code section, premiums paid for LTC policies are considered to be qualifying medical expenses for the Schedule A medical-expense itemized deduction.[2] Policy benefits are treated as “amounts received for personal injury and sickness,” excludable from gross income.
- **Consumer Protection:** The policy must meet the requirements specified in the National Association of Insurance Commissioner’s (NAIC) Long-Term Care Insurance Model Regulations and Long-Term Care Insurance Model Act (as adopted as of October 2000).

[1] The discussion here concerns federal income tax law. State or local law may differ.

[2] Beginning in 2013, the threshold for the federal Schedule A itemized deduction for unreimbursed medical expenses generally increased from 7.5% to 10.0% of Adjusted Gross Income (AGI). However, for the years 2013-2016, if either a taxpayer of spouse is age 65 before the end of the taxable year, the threshold will remain at 7.5% of AGI. State or local law may vary.

- **Inflation protection:** Partnership policies issued to individuals under age 76 must contain certain benefit inflation protection provisions.

Other Issues To Consider

- **Will you qualify for Medicaid?** Entitlement to Medicaid benefits is not automatic. In addition to certain asset level requirements, a state's Medicaid program will also impose income and functionality limits. Many individuals have too much income or are not "disabled" enough to qualify for Medicaid.
- **Availability:** Partnership LTC policies are available in most (but not all) states as well as the District of Columbia.
- **If you move to a different state:** States that have Partnership LTC programs are automatically considered to have "reciprocity" with each other and to honor the asset disregard earned under a policy purchased in a different state. However, a state can opt out of this requirement at any time.

Seek Professional Guidance

The medical, legal, tax, and investment aspects of planning for long-term care can be complex. The guidance of qualified professionals is highly recommended.