



**Vivian P. Gallo, CLU, CSA, AEP, CLTC**  
*Long Term Care Planning Specialist*  
**Tel: 914- 472-2223**  
[www.ChoicesForLTCI.com](http://www.ChoicesForLTCI.com)  
email:Info@ChoicesForLTCI.com

## LTC Update

### **How The Deficit Reduction Act of 2005 Affects Your Retirement and Estate Planning**

By Vivian P. Gallo, CLU, CSA, AEP\*

For years, MANY middle class Americans have been utilizing the Medicaid system to provide for end-of-life, long term care needs. The Medicaid program was intended to provide care for poor, destitute people. But over the years, “legalized loopholes” were discovered which enabled middle income and even affluent individuals to transfer assets and to leave inheritances while the government paid the increasing costs of their long term care. As taxpayers, we all shared in this ever-increasing burden.

From a national standpoint, major reforms limiting access to Medicaid were long overdue. The Deficit Reduction Act of 2005 (DRA) signed by President Bush on February 8, has tightened access to Medicaid, which is expected to reduce the growth in Medicaid costs by about \$5 billion over the next 5 years.

#### **So, What Does This Mean to You?**

- Middle class individuals wishing to leave assets to their heirs, must plan to pay for their own long term care needs.
- Through long term care insurance planning, most people can protect some or all of their assets, and still assure that they will be well taken care of.
- Home equity above \$500,000 under the DRA will not be an exempt asset for purposes of qualifying for Medicaid.
- The New York State Partnership for Long Term Care Insurance program will now provide a viable and more affordable planning tool for a much broader segment of New Yorkers.

Prior to the enactment of the DRA, only four (4) states offered long term care insurance Partnership plans: California, Connecticut, Indiana and New York. New York’s Partnership plan provided “Total Asset” protection, while the other states were “Dollar-for-Dollar” models.

In terms of asset protection, New York’s original (Total Asset) Partnership policies provided the most liberal program for its participants. Its lack of flexibility relative to benefit options, however, limited and eliminated a large segment of its population from being able to afford and participate in LTCI Partnership planning. For some, this made Medicaid the more suitable planning option.

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Now, New York residents may select from either re-designed “Total Asset” Partnership plans or from the new “Dollar-For-Dollar” Partnership options. By providing increased flexibility in the options available, coverage can be designed to meet a wide variety of needs and accommodate a broader spectrum of the population.

With the new “Dollar-for-Dollar” asset protection plans, for each dollar of insurance used, you can protect one dollar of assets. The amount of insurance is directly related to the amount of assets you wish to protect. Should you continue to need care after you have exhausted your benefits under a Partnership policy, you may apply for assistance from Medicaid. In determining Medicaid eligibility, the Department of Social Services will ignore any assets you have, up to whatever amount the Partnership policy has paid in benefits. Because “Dollar-For-Dollar” plans now have shorter benefit periods of 1.5 and 2 years, people of lesser means may be able to protect assets and still qualify for Medicaid.

Prior to DRA, Connecticut and Indiana, which both offer Dollar-For-Dollar Partnership plans, had established reciprocity between their states for LTC Partnership policyholders. The foresight of these two states in working out reciprocal arrangements in terms of Medicaid’s Extended Coverage, set the foundation to facilitate similar arrangements as additional states adopt Partnership programs under DRA. This in turn, may lead to an increased desirability for and participation in LTCI Partnership planning.

Under New York’s original Partnership arrangement, a “Total Asset” model, if you exhausted your benefits from your LTCI pool of money by outliving your 3 years of nursing home benefits and/or 6 years of home care benefits, *you could retain all your assets and still qualify for Medicaid, provided you received your care in NY State.* Essentially, NYS Partnership participants were required to contribute any income they received up to the cost of their care and Medicaid paid the difference. In effect, these Partnership arrangements provide long term care benefits for one’s lifetime, along with total asset protection.

Some consider the tightening of Medicaid eligibility requirements as a catalyst contributing to an ever increasing need for long term care assistance by individuals. However, for people with sufficient income, resources and an accompanying desire and willingness to provide for their own needs, the new “Partnership” options can be designed to address the diverse needs and budgets of many, serving to ease the much over-burdened Medicaid system.

For most people today, Medicaid is no longer a feasible planning option, but long term care insurance planning is. With good long term care insurance built into your retirement and estate plan now, you can avoid having to deplete your lifetime savings, or becoming a burden to your loved ones.

\* Vivian P. Gallo is a CLU (Chartered Life Underwriter), Certified Senior Advisor (CSA) and Accredited Estate Planner (AEP), specializing in long-term care insurance. She is not a tax consultant or attorney, however, and cannot provide tax or legal advice. Please consult your accountant, tax preparer or attorney on all tax planning and legal matters.

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