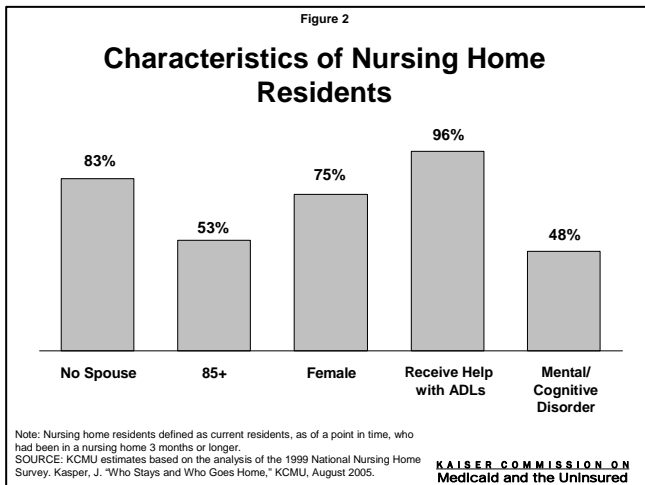
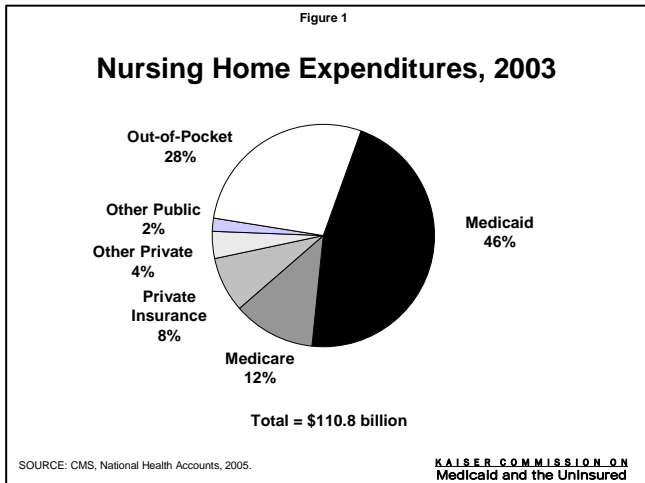


**Paying for Nursing Home Care: Asset Transfer and Qualifying for Medicaid**

As policymakers are considering options to reduce Medicaid spending, by changing asset transfer rules and increasing penalties for certain asset transfers, this snapshot presents key facts on who relies on nursing home services and highlights research findings on asset transfer.

**Few Elderly People Can Afford to Pay For a Long Nursing Home Stay.** At an annual cost averaging over \$70,000, a nursing home stay can quickly deplete a lifetime of savings. After personal resources, Medicaid is the only source of assistance for most elderly people who need help paying for extended nursing home care (Figure 1). However, Medicaid is not available to everyone who needs nursing home care. Help is limited to the very poor and those who have impoverished themselves paying for care. After qualifying for Medicaid, an individual must continue to put all income toward the cost of nursing home care, except for a small personal needs allowance (typically \$30 per month). In addition, assets generally cannot exceed \$2,000, excluding the home (special rules allow higher asset levels for a community spouse of a nursing home resident). If an applicant transfers assets at below market value, they face a 3 year look back period (5 years for certain trusts) that can delay eligibility.

**Elderly Nursing Home Residents Are Frail and Often Need Help Paying for Care.** The majority of elderly nursing home residents are age 85 and older, 75 percent are female, 83 percent are without a spouse, 96 percent receive help with ADLs, and nearly half have cognitive impairments or other mental disorders (Figure 2).<sup>1</sup> Because nursing home care is so expensive, 56% of nursing home residents eventually qualify for help from Medicaid (See profile below). Few seniors are aware that their Medicare coverage will not pay for a long nursing home stay. Private long-term care insurance is often unaffordable, inadequate, or unavailable to elderly people as chronic conditions emerge.



**Qualifying for Medicaid Nursing Home Care: A Profile**

**Emily** entered the nursing home in January 2003 at the age of 89. Emily has a multitude of health problems including Parkinson's disease, poor eyesight, incontinence, depression, and is confined to a wheel chair. Her husband, who worked as a salesperson for a home builder, has been in a caregiver role for many years. After several attempts to provide around-the-clock nursing care at home Emily's husband decided he could no longer meet his wife's needs there—even with the support of full-time nurses. "I had spent an awful lot of money [paying for care at home]. That was my biggest expense. Had it 'round the clock. Had to. I could not help her to the bathroom." Emily entered the nursing home as a private paying resident and within 5 months spent down to Medicaid eligibility. Before qualifying for Medicaid, Emily and her husband had modest assets, in the form of CDs, stock and IRAs, but 24/7 nursing care for several years at home followed by the monthly \$6,000 cost of nursing home care quickly depleted their assets.

Source: Williams, C. "Profiles of Nursing Home Residents on Medicaid," conducted by AZA Consulting for the KCMU, report forthcoming February 2006.

**Most Elderly Do Not Have Assets Sufficient to Pay for a Month of Nursing Home Care.** Among the 1 million elderly people at high risk of nursing home use – no spouse, age 85 and older, and needing help with functional limitations or cognitive impairments – 62 percent have asset levels that would be exhausted within one month of nursing home admission (Figure 3). Even among the broader elderly population, few could afford long-term nursing home care.<sup>2</sup> Over half have assets below \$5,000 and two-thirds have resources equal to less than one year of the cost of nursing home care (\$70,000).<sup>3</sup>

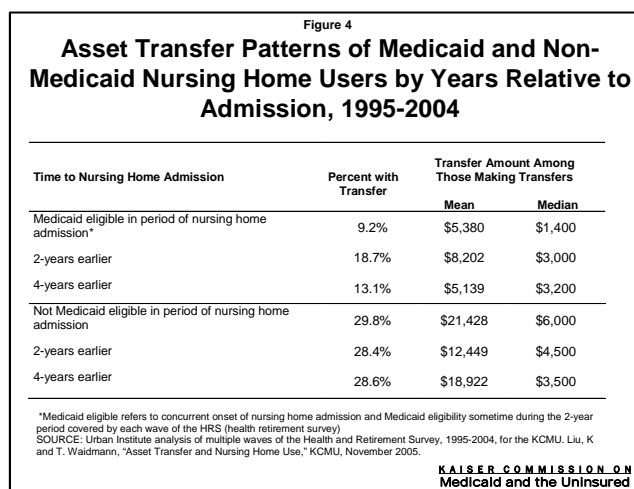
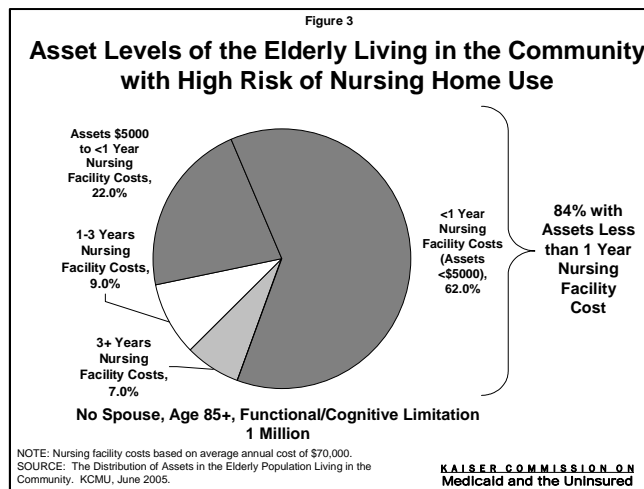
**Few Nursing Home Residents Eligible for Medicaid Have Transferred Assets.** The likelihood that an elderly nursing home resident has transferred assets during the four years prior to becoming eligible for Medicaid ranges from 9-19% (Figure 4).<sup>4</sup> This research indicates it is unlikely that many seniors transferred assets to gain Medicaid eligibility. Transfers are more common among the nursing home residents who do not become eligible for Medicaid, with 28-30% having transfers.

**The Dollar Amount of Asset Transfers Among Nursing Home Patients Who Become Eligible for Medicaid Is Small.** Among Medicaid nursing home patients with asset transfers within two years of admission, the average amount transferred was \$5,380, while the median amount transferred was \$1,400. These amounts are sufficient to cover less than one month of nursing home care. Among the nursing home patients not on Medicaid with asset transfers, the average amount transferred was \$21,428, while the median amount was \$6,000.

### Congressional Budget Context and Outlook

In late December, the Congress voted on a budget reconciliation conference report. Changes to Medicaid long-term care rules are estimated to save \$2.4 billion over 5 years, slightly higher than the House bill and seven times larger than the Senate bill. Spending reductions are due largely to increasing penalties on individuals who transfer assets, by moving the penalty period start date to the Medicaid application date and increasing the look back period from 3 to 5 years. Also individuals with home equity above \$500,000 would be ineligible for Medicaid nursing home benefits (up to \$750,000 at state option). Due to technical modifications in the Senate conference bill, the House must vote again on the bill, scheduled for February 1, 2006.

While there is consensus that individuals should not gain Medicaid eligibility by inappropriately shielding substantial wealth, the research demonstrates that most elderly attempting to qualify for Medicaid nursing home care have few assets and the incidence of asset transfer is small. More restrictive asset transfer rules could increase the administrative burden for beneficiaries and providers, place nursing homes at-risk financially for those affected, and may achieve fewer savings than expected. Consideration of a range of options to finance long-term care without requiring impoverishment of those who need long-term care would help move us towards a more equitable system that provides opportunities to plan for future needs without jeopardizing those who need long-term care help today.<sup>5</sup>



<sup>1</sup> Kasper, J. "Who Stays and Who Goes Home," KCMU, August 2005. <http://www.kff.org/medicaid/7386.cfm>

<sup>2</sup> US Government Accountability Office, "Transfers of Assets by Elderly Individuals to Obtain Long-Term Care Coverage," GAO-05-968, September 2005. <http://www.gao.gov/new.items/d05968.pdf>

<sup>3</sup> Lyons, B., A. Schneider, K. Desmond. "The Distribution of Assets in the Elderly Population Living in the Community," KCMU, June 2005. <http://www.kff.org/medicaid/7335.cfm>

<sup>4</sup> Liu, K. and T. Waidmann. "Asset Transfer and Nursing Home Use," KCMU, November 2005. <http://www.kff.org/medicaid/7436.cfm>

<sup>5</sup> O'Brien, E. "Long-Term Care: Understanding Medicaid's Role for the Elderly and Disabled," KCMU, November 2005. <http://www.kff.org/medicaid/7428.cfm>

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