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LTCI Turmoil

On the face of it, not much is happening this year on LTCI public policy. Health reform consumes the political system's attention, but long term care is barely on politicians' radar screens. This year, no one in Congress even bothered to introduce the perennially-doomed "above-the-line tax deductibility" proposal. Education campaigns like "Own Your Future" sputter along. Section 125 remains little more than a gleam in the eyes of carriers' government affairs staff. LTC partnerships leave people wondering, "Who would want to coordinate benefits between a quality insurance product and a bankrupt welfare program?" LTCI market penetration is dismally low and flat or down.

Yet under the surface, a great deal is happening that will make or break the market for long term care insurance.

What, Pray Tell?

The recent \$787 billion economic stimulus package contains \$127 billion for health care, \$87 billion of which is aid to the states for Medicaid.

So, what's that got to do with long term care insurance?

- First, according to research published by Amy Finkelstein of MIT and Jeff Brown at the University of Illinois, Medicaid crowds out 66.6 to 90 percent of the potential market for long term care insurance. (Read their evidence for yourself at www.nber.org, the National Bureau of Economic Research's website.)

- Second, the \$87 billion stimulus

Congress gave to state Medicaid programs comes with the stipulation that they not cut eligibility for long term care benefits.

In other words, this new windfall of borrowed money from the feds is guaranteed to prop up Medicaid's profligate nursing home and home care spending, which is precisely what's preventing long term care insurance from gaining marketplace traction.

How can that be? Medicaid is welfare. It requires total impoverishment. Surely any new money for Medicaid only helps the most destitute.

Think Again—Here Are the Facts

Medicaid is supposedly for low-income people, but if you're 65 or older and you need LTC, you're eligible if your income is less than the cost of a nursing home. That's more than \$6,000 per month, on average. Low income? Not by any standard.

But doesn't anything over \$2,000 in assets disqualify you? Yes, if you hold it in cash or negotiable securities. No, if you hold it in exempt assets.

What's exempt?

- A home and all contiguous property up to an equity value of \$500,000. Make that \$750,000 in "generous" states such as New York, California and Idaho.

- A business, including capital and cash flow of unlimited value. Got extra assets? Want Medicaid to pay for your LTC? Buy a rental house.

- One auto of unlimited value, as long as it benefits the Medicaid recipient. Use

Grandma's money to buy a sports car and take her for a ride. That counts.

Because the car's exempt, it isn't a penalizable transfer of assets if Grandma gives it away. So buy one, give it away, buy another and so on, until you get down to the \$2,000 limit. That's the "two Mercedes" rule.

- Unlimited prepaid burial plans for the Medicaid recipient *and* family members. Own your own pyramid and qualify quicker for Medicaid LTC.

- Unlimited term life insurance. Why would a 90-year-old buy a \$1 million term life policy? Instantaneous self-improvement, eligibility for Medicaid, and the benefit passes directly to heirs dodging probate and evading Medicaid's mandatory estate recovery.

Still having trouble getting down to that \$2,000 limit? Medicaid planners (lawyers who specialize in artificially impoverishing affluent clients to qualify them for Medicaid) advise "take a world cruise" or

throw "a party of Ziegfield Follies proportion." Medicaid doesn't care how you spend the money as long as you don't give it away for less than fair market value.

And finally, if you still have too much wealth to qualify for Medicaid, those same lawyers can show you how to get rid of it with annuities, life care contracts, reverse half-a-loaf strategies and dozens of other sophisticated techniques they've dreamed up to justify their \$200 to \$500 billable hours.

I encourage LTCI carriers, brokers and producers to understand how Medicaid crowds out their market and poisons long term care services for everyone.

The good news is that this problem is easy to fix and, with your help, we have a real chance to fix it this year. The trick is to preserve Medicaid as a safety net for the poor and use the savings to fund tax incentives for LTC insurance and a much bigger education campaign.

That's the goal of the Center for Long-Term

Care Reform's "2009 Save Medicaid LTC Campaign" and our "2009 Western Tour."

Our Strategy Is Threefold

1. Help state Medicaid programs make full use of federal laws to target their scarce LTC resources to people truly in need.

2. Advocate for new federal rules that prevent affluent people from gaming the system and to encourage everyone who's young, healthy and affluent enough to save, invest or insure for LTC.

3. Help LTCI carriers, brokers and producers use these insights to protect more individuals, families and companies from the risk and cost of long term care in the future.

Long term care financing is entering a period of tumultuous change. Medicaid can't and won't continue to pay for most LTC and crowd out most LTCI.

We can turn this crisis from danger to opportunity. ☛