Long-Term Care Partnership Programs

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As life expectancy increases, many more people will require long-term care. Frequently, this takes the form of custodial care—that is, help with the activities of daily living, either provided by an in-home caregiver or in an assisted living facility or nursing home. Most health insurance programs, including Medicare, do not cover custodial care, and Medicaid is limited to low-income seniors. Because paying for long-term care impoverishes many seniors, however, Medicaid ends up footing much of the long-term care bill.

What are partnership policies?

To help relieve the overburdened Medicaid system, many states have implemented versions of the federal Long-Term Care Partnership Program. Through these programs—a collaboration between states and private insurance companies—individuals can purchase special long-term care insurance (LTCI) with the assurance that they can continue to receive long-term care services through Medicaid after their coverage is exhausted. Furthermore, participants can qualify for Medicaid without having to spend down their assets to the level typically required, assuming they meet other eligibility requirements.

A partnership policy is similar to traditional LTCI except that it includes a "lifetime asset protection" feature, which ensures that long-term care expenses won't reduce you or your family to poverty. Each state's rules vary, but partnership policies generally take a dollar-for-dollar asset protection approach. This means that, for each dollar the partnership policy pays in benefits for your care, you can protect a dollar of your assets from Medicaid spend-down requirements, should you need to apply for Medicaid benefits.

In addition, assets protected by a partnership policy can be given away without affecting your Medicaid eligibility, and when you die, the state will not attempt to recover those assets from your estate. It's important to note, however, that although a partnership policy allows you to retain some of your assets, you may still need to spend your income on long-term care before Medicaid covers your expenses.

As with traditional LTCI, you must meet the underwriting requirements of the issuing insurance company in order to qualify for a partnership policy. Partnership policies generally cost the same as other long-term care policies, but they include age-based inflation protection and must be tax-qualified. Some states require minimum daily benefits.

How do partnership policies work?

Let's look at an example: Joe purchases a partnership policy with a total lifetime benefit amount of $200,000. Later, he qualifies for benefits and begins to receive long-term care services. Over the years, the lifetime benefit grows to $500,000 thanks to the inflation protection built into the policy. After paying out $500,000 in benefits for Joe's long-term care, the policy is depleted.

Joe can now apply for Medicaid coverage to pay for his ongoing long-term care services. He is allowed to protect $500,000 in countable assets from Medicaid eligibility spend-down requirements (over and above the state maximum in countable assets). Without the partnership program, he would be required to spend down his assets to the mandated poverty level in order to qualify for Medicaid. Of course, he still needs to use his income to pay for care and meet all other state Medicaid eligibility requirements.

A key consideration

Like traditional LTCI, partnership policies can help you protect your independence and dignity, helping to ensure that you won't have to depend on others to care for you. They can also protect your entire financial plan from potentially catastrophic uncovered health care expenses. Your financial advisor can discuss all the options with you and help you select the best long-term care coverage for you and your family.

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