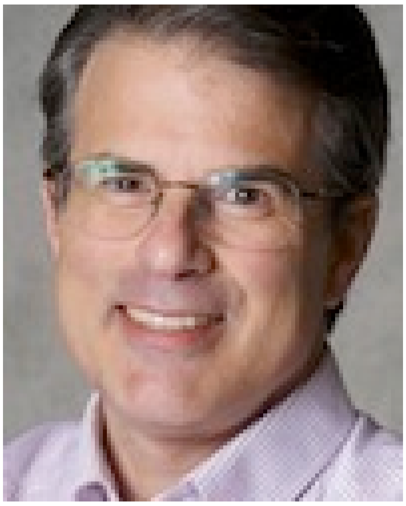
Affluent People on Medicaid? It Can Happen

By Kerry Pechter *Thu, Jun 29, 2017*

Only six percent of Medicaid recipients use nursing homes, but their bills account for 42% of Medicaid spending. Many of those who receive Medicaid for long-term care expenses are once-affluent people who outlived their money, according to Kaiser Health News.



The idea of "going on Medicaid" for nursing home care has always been a scary thought for me, and perhaps for you and your clients. It evokes images of forced bankruptcy, staphylococcus-ridden wards and helplessness at the hands of indifferent health care aides.

A story from Kaiser Health News, published in the *New York Times* last Sunday, painted a less grim picture. It cited figures showing that Medicaid covers the cost of care at many clean, well-lighted facilities for many upper-middle class Americans who have simply outlived their savings.

The article related the story of Alice Jacobs, a 90-year-old resident of a nursing home in rural Virginia. She once owned a factory and horses, raised four children, buried two husbands and amassed savings that she thought would last indefinitely.

But longevity risk eventually caught up with her. Years in an assisted living center consumed her savings, so she moved to a room at Dogwood Village, a non-profit, county-owned nursing home that receives about half of its $13 million in annual operating costs from Medicaid. People like her often don't know that they're on Medicaid, according to the article.

There are many like her. Some 70 million Americans rely on Medicaid, at an annual cost of $389 billion to the federal government (and another $120 billion or so to the states). Only 6% of Medicaid recipients use long-term services such as nursing homes at a given time, but they account for 42% of Medicaid spending.

If you're an advisor, you and your clients probably don't include Medicaid in their retirement income plans. High net worth individuals often own long-term care insurance. They are more likely to concern themselves with protecting their wealth from erosion by catastrophic illness or prolonged nursing home expenses than about running completely out of money and relying on Medicaid.

But many affluent people, who on average live longer than the poor, eventually rely on Medicaid. It's not unusual for a hospital patient on Medicare to convalesce in a nursing home. After a hundred days, private savings either replaces Medicare or Medicaid begins. Individual Social Security benefits may be garnished to help supplement Medicaid.

Now, what of the future of Medicaid under the health care bill currently bumping its way through Congress? Will it still be there to serve as a safety net for the very old, like Alice Jacobs, an affluent person who simply outlived her savings?

The answer appears to be yes, but perhaps with limitations. The House version of American Health Care Act targets nursing home coverage directly by requiring every state to count home equity above $560,000 in determining Medicaid eligibility, according to Kaiser Health News. That would make eligibility rules tougher in states like California, Massachusetts, and New York where real estate is especially expensive.

The Senate version of the health bill would cut total federal and state Medicaid spending over the next 20 years by between $2 trillion and $3.8 trillion, according to the AARP Public Policy Institute. But the Republican leadership postponed the vote on that bill until sometime after the July 4 holiday because it could not find enough Republican Senators willing to commit to voting for it.

In any case, the new health care bills would merely reduce spending on Medicaid, not eliminate it. The core purpose of the Republican bills seems to be to kill the new taxes that helped pay for the Obamacare subsidies that enabled tens of millions of moderate-income people (as well as older people who aren't yet eligible for Medicare, and people with pre-existing conditions) to buy private health insurance. Any impact on Medicaid, or on the nursing home patients who rely on it, will likely fall into the category of collateral damage.

If interest rates rise and Medicaid eligibility tightens, there might be an opportunity for life insurance companies to revive the concept of fixed deferred annuities with long-term care riders. These products, which fell victim to the low rate environment, showed promise a few years ago as an appealing form of high-deductible long-term care insurance.