

# Money Matters

The Independent Press  
January 7, 2009

## Question of the Month: How Long Term Care Insurance Program Works By Aaron Skloff

**Q:** Can you explain how the recently introduced New Jersey Long Term Care Insurance Partnership Program works?

About half the population who will reach the age of 65 are expected to enter a nursing home at least once in their lifetime. A 55 year-old New Jersey (NJ) resident is expected to pay over \$300,000 for one year of nursing home care when they are likely to need it at the age of 80. Based on the average nursing home stay, total costs are expected to reach \$1.5 million per person – easily wiping out a lifetime of savings for many families.

The Deficit Reduction Act of 2005 radically changed the Medicaid playing field. The most important change was an extension of the look-back period for asset transfers to establish Medicaid's eligibility for nursing home coverage from 3 to 5 years and changes the start of the penalty from the date of the transfer to the date of Medicaid eligibility. The second most important change was the lifting of the moratorium on states introducing new partnership programs to increase the role of private long term care insurance in financing long-term services.

The NJ Long Term Care Partnership Program (NJLTCPP) allows individuals to protect assets equal to the insurance benefits received from a Partnership Policy so that the assets will not be taken into account in determining financial eligibility for Medicaid. One of the key aspects of the policies is their requirement for inflation protection (minimum of 3%) in the policy for most individuals. For example, a NJ resident purchases \$102,200 (the average rate of a private room in NJ in 2008) worth of annual care through the policy. When the care is needed, the policy pays for \$900,000 of care (due to inflation protection). Under the NJLTCPP, a person would then have \$900,000 of assets protected from NJ Medicaid. This type of protection is commonly referred to as "dollar for dollar" asset protection.

Establishing LTC insurance immediately reduces the financial and psychological burdens that will ultimately plague most families when the need for long-term care arrives. With many states running large deficits, it is even more critical than ever to take advantage of any programs designed to protect your assets, before they review the legislation and discontinue the issues of new policies. Like most insurance, the earlier you start your policy, the lower your cost of the policy.

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