

Medicaid will look at past assets

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Your generosity could come back to haunt you.

That's the message Congress sent last month when it changed the rules for qualifying for Medicaid coverage for nursing home care.

The objective was to stop middle-class retirees from giving away money to their kids, then expecting the government to pick up the nursing home tab. If you break the rules, you could be denied help.

"Normal innocent things like giving money to charities and helping family members in need at least in theory could cause someone to be denied coverage," said Paul Cotton, a lobbyist for AARP, which fought the changes.

State officials are charged with implementing the new rules. In Florida, that falls to the Department of Children and Families, which said "it would be premature to discuss these plans now while we are still working on them."

Although the details still are being worked out, the changes apply to money or property transferred for less than fair market value after Feb. 8.

Here's what's important to know:

- Asset transfers in the five years before applying for Medicaid will be scrutinized. The old rule was three years. This is the "look-back" period.
- Medicaid eligibility will be delayed based on the amount transferred (in Florida's it's one month for each \$3,300). The disqualification period won't start until you apply for Medicaid. In the past, it started at the time of the gift, meaning you could give away \$3,300 and have your eligibility restored a month later.
- Home equity can be no more than \$500,000 (up to \$750,000 if the state passes a rule allowing that). Presumably those who have more than that will have to sell the house or take out a mortgage.
- Restrictions on loans and mortgages will make it tougher to disguise a gift as a loan.

- Putting money in an annuity will pass muster only if the annuity is irrevocable, non-assignable, actuarially sound and pays out in equal installments.

- Newly purchased annuities will have to make the state the remainder beneficiary. The rule even applies if the annuity is purchased by a spouse who is not in a nursing home.

"There are a myriad of traps for the unwary, particularly in the areas of the new look-back rules and in the treatment of annuities," Clearwater lawyer Charles Robinson said.

About the only good news is the expansion of public-private partnerships that allow protection of assets if someone buys a long-term insurance policy. Robinson said he also will be working on legislation to allow people who cannot qualify for insurance to protect some of their assets by setting aside other assets for long-term care.

The law did not change asset limits for eligibility. In Florida, most persons who are institutionalized can have no more than \$2,000 if single or \$3,000 total if married with both spouses in a nursing home. A spouse still living in the community is permitted to keep \$99,540.

The eligibility rules include annual income limits of \$1,809 single, \$3,618 married and both institutionalized and \$29,868 for a spouse in the community.

I have been "messing around" in penny stocks for years and now want to start selling some of my holdings. One stock I want to sell has a gain of about \$26,000. Should I pay the tax on it when it is sold or wait until I file my regular taxes for 2006? I do not want any penalties. The basic rule is that to avoid a penalty, your advance tax payments (withholding plus estimated tax payments) must equal at least 90 percent of your tax liability or at least 100 percent of your prior year's taxes. However, if your adjusted gross income is more than \$150,000, the rule is 110 percent of your prior year's taxes.

If you need to make estimated tax payments to meet those parameters, you're generally expected to pay at least 25 percent by the first payment date, 50 percent by the second and so on. However, if your increase in income occurs late in the year, you can handle it differently.

Helen Huntley writes about investing and markets for the Times. If you have a question about investments or personal finance, send it to On Money. We'll try to answer those we think are of greatest reader interest. All questions must be submitted in writing, but readers' names will not be published. Send questions to hhuntley@sptimes.com or Helen Huntley, Times, P.O. Box 1121, St. Petersburg, FL 33731.

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