

medicaid and the uninsured

June 2005

The Distribution of Assets in the Elderly Population Living in the Community

Medicaid pays for nursing home care for eligible elderly or disabled individuals. In many states, Medicaid also covers home and community-based services for eligible individuals who are determined to be at risk of nursing home care. In both cases, individuals cannot qualify for Medicaid unless, among other things, they meet the asset eligibility standards that apply in their state. Generally these standards allow an individual no more than \$2,000 in countable assets (in the case of a couple, the standard is generally \$3,000.¹) Countable assets include savings accounts and investments but do not include the home (of any value), one car if used for necessary transportation, life insurance with a face value of less than \$1,500, and certain other items.

Under current federal Medicaid law, individuals who transfer assets for less than fair market value prior to applying for Medicaid are penalized by the denial of nursing home coverage for a specified period of time. State and federal policymakers seeking to reduce Medicaid spending have put forward proposals to increase the penalties for transfers of assets in order to qualify for nursing home care (OMB, 2005; NGA, 2005). Several states have requested waivers that would enable them to increase the number of transfers subject to penalties, and the Bush Administration has proposed to effectively lengthen the period during which nursing home coverage is denied.

To help inform this discussion, this brief examines the assets of elderly people living in the community, focusing on those most at risk of using nursing home care. We have examined non-housing assets since Medicaid law excludes the home.

Background

Federal Medicaid law contains provisions designed to deter individuals from transferring assets to others (including heirs) for less than fair market value so as to reduce countable assets below \$2,000 (or the applicable standard in the state) in order to qualify for Medicaid coverage for nursing home care or home and community-based services. These provisions penalize such transfers by denying Medicaid coverage for a period of time related to the amount of the transfer; the greater the amount transferred, the longer the period of delay in coverage. Although an individual's home is not considered a countable asset, federal Medicaid law also penalizes the transfer of title to an individual's home to anyone other than that individual's spouse or disabled child (or, in certain limited circumstances, a sibling or non-disabled child). These provisions were enacted to address concerns that assets that could be tapped to pay for nursing home care were being transferred to children or grandchildren.

Currently, states are required to examine all transfers for less than fair market value that occurred within 36 months prior to an individual's application for Medicaid (in the case of

¹ Special rules allow higher asset levels for a community spouse of a nursing home resident to prevent impoverishment, but in many states these levels are below \$20,000.

transfers to trusts, this look-back period is 60 months). The amount of any such transfer is divided by the average monthly cost of nursing home care to private patients. This produces the number of months for which Medicaid eligibility for nursing home (or HCBS) services is denied. Currently, this penalty period begins on the date of the inappropriate transfer.

Several states, including Connecticut and Minnesota, have requested waivers of the Medicaid law that would allow them to lengthen the penalty period for individuals who have transferred assets for less than fair market value. In addition, the Bush Administration FY 2006 Budget proposes to increase the current law penalty for inappropriate transfers by beginning the penalty period on the date of application for Medicaid rather than the date of the transfer. The Congressional Budget Office estimates that the Administration proposal will reduce federal Medicaid spending by \$1.4 billion over the next five years (CBO, 2005).

The degree to which Medicaid spending could be reduced by delaying or eliminating Medicaid nursing home payments for elderly people who have transferred assets hinges on the level of assets held by elderly people who are likely to use nursing homes (O'Brien, 2005). The risk of using a nursing home is not spread evenly among the elderly; rather it is concentrated among those with certain characteristics, most notably older age, no spouse, and increasing levels of functional limitations and cognitive impairments (Miller and Weissert, 2000). The profile of elderly nursing home residents demonstrates this--the majority are age 85 and older, 75% are female, 83% are without a spouse, 96% receive help with ADLs, and nearly half have cognitive impairments or other mental disorders (Kasper et al., 2005). This analysis describes the asset levels within the elderly population and among those at high risk for using nursing homes.

Methods

The findings are based on analysis of the 2001 Survey of Income and Program Participation (SIPP), a nationally representative panel survey that collects information on non-institutionalized individuals' income and assets. This analysis uses interviews of the 2001 panel that occurred between October 2002 and January 2003, and refers to the period September to December 2002.² All elderly people on SIPP were selected (n=8,555). The sample weights were adjusted to reflect growth in the over-65 population from 2002 to 2005.

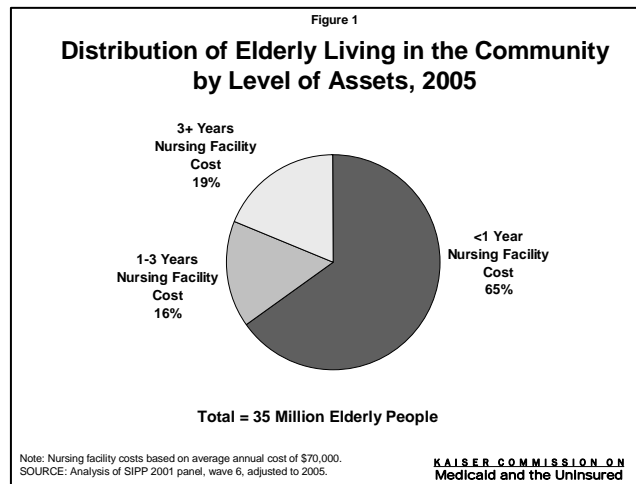
Asset levels were determined for people age 65 and older and inflated to 2005. In counting assets, we followed the Medicaid rules and included: interest/noninterest earning accounts, bonds/US securities, face value of US savings bonds, stocks/mutual funds, IRAs, Keoghs, 401Ks, rental property, vacation/undeveloped property, other investments. Under Medicaid, one car is excluded if it is used for necessary transportation; since we could not determine this from the survey, we did not count the value of the first car, but counted all others. Housing assets were not counted, as per federal Medicaid policy.

² Information regarding ADLs, IADLs and cognitive impairments was ascertained from a wave of the SIPP survey collected 3 months earlier. Individuals who were not interviewed in that waiver (3.6%) had values filled in randomly, in strata based on self-assessed health status.

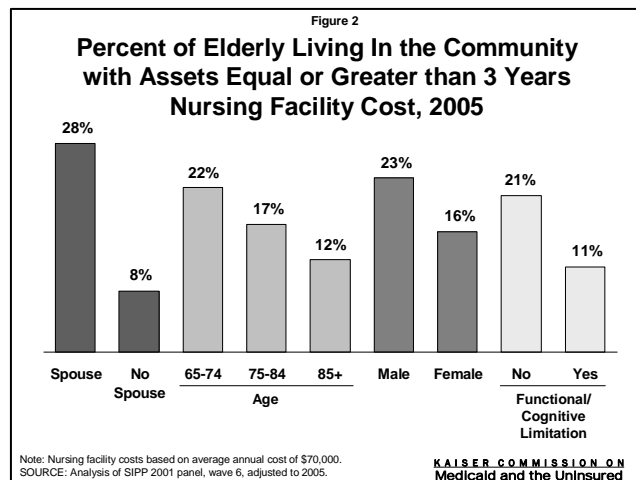
Asset levels were determined by comparing SIPP asset amounts (inflated to 2005) to categories based on the average cost of nursing facility care, \$70,000 per year (CBO, 2005). We classified individuals as having assets equal to less than one year of the cost of nursing home care (<\$70,000); one to three years (\$70,000 to \$210,000); and three years or greater (\$210,000 or more). Among long-stay residents who had resided in nursing homes for 90 days or longer, over two-thirds had been resident for one year or longer; one-third for three years or longer (Kasper et al., 2005). We identified individuals at high risk of nursing home use based on the literature summarized in Miller and Weissert's review as those who have no spouse, are 85 and older, and need help in performing Activities of Daily Living, Instrumental Activities of Daily Living, or cognitive or mental problems.

Findings

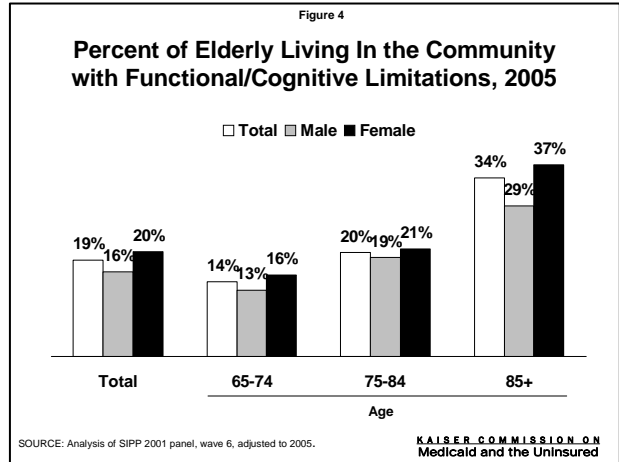
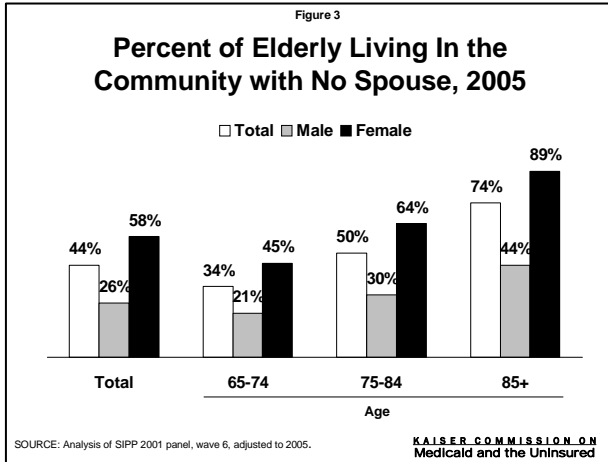
Most elderly people do *not* have assets that would enable them to pay for one year of nursing home care (Figure 1). Two-thirds of elderly people living in the community have resources equal to less than one year of the cost of nursing home care (\$70,000). The majority of elderly people in this range have very low asset levels; 57% have assets below \$5,000, less than the cost of one month of nursing home care. A considerably smaller share (19%) of elderly people living in the community have assets equal to three or more years of the average cost of nursing home care.



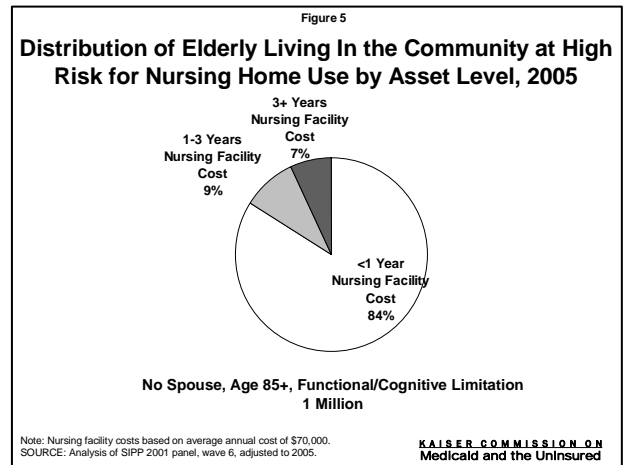
Asset levels are substantially lower for elderly people who have characteristics associated with nursing home use (Figure 2). Elderly people who have no spouse, are older, are female, and have functional or cognitive limitations are much less likely to have assets equal to three or more years of nursing home care.



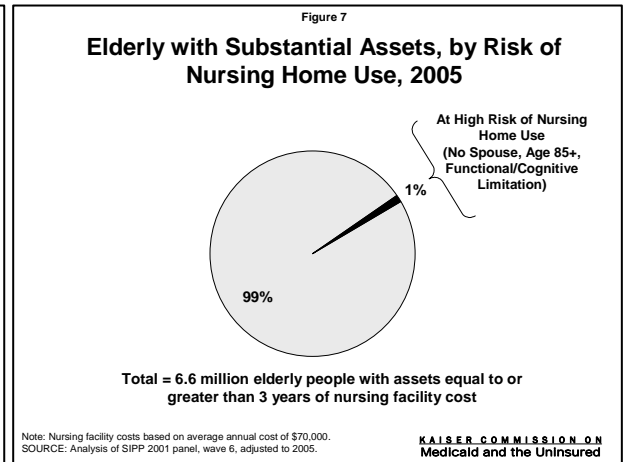
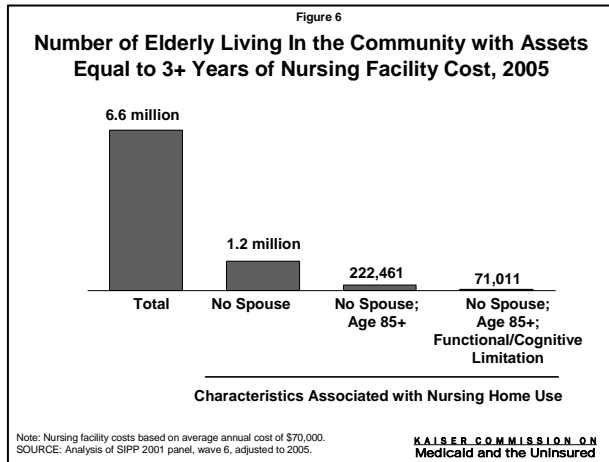
These risk factors for nursing home entry are closely related. For example, the likelihood of being without a spouse rises dramatically with age, particularly for older women. Nearly nine out of ten women age 85 and older do not have a spouse (Figure 3). The likelihood of having a functional limitation and/or cognitive impairment also rises with age, increasing from 14% for elderly people age 65-74 to 34% for those age 85 and older (Figure 4).



The vast majority of elderly people at high risk for nursing home use do not have assets to cover one year in a nursing home. Among the 1.0 million elderly people at high risk of nursing home use—no spouse, age 85 and older, and needing help with functional limitations or cognitive impairments—84% have asset levels below one year of nursing home cost. For three quarters of elderly people in this range, asset levels are less than \$5,000. A small share (7%) of elderly people at high-risk of nursing home care have assets sufficient to cover 3 years of nursing home costs (Figure 5).



A relatively small number (71,011) of elderly people with assets equal to 3 or more years of nursing home costs are at high risk for nursing home use (Figure 6). The number of elderly people who have high levels of assets declines rapidly when examining combined risk factors for nursing home use, including no spouse, age 85 or older and functional/cognitive limitations. As a result, only 1% of elderly people with these asset levels are at high risk for nursing home care (Figure 7).



Conclusion

Most elderly people living in the community do not have assets, excluding home equity, sufficient to finance a nursing home stay of one year or more. Furthermore, relatively few of the 6.6 million elderly people who have assets equal to or greater than three years of nursing home care are at high risk for using nursing homes. Rather, the one million elderly at high risk-- because they have no spouse, are age 85 and older, and have functional or cognitive limitations--tend to have few assets, and 84% have asset levels that would be exhausted within one year of nursing home care. These high-risk elderly are of the World War II generation, most of whom have not accumulated substantial liquid assets. Future generations may be able to generate more wealth. However, these findings suggest that proposals that assume significant reductions in Medicaid spending in the short-term by lengthening the look-back period beyond three years or tightening asset transfer rules may fall short of expectations.

This brief was prepared by Barbara Lyons, Kaiser Commission on Medicaid and the Uninsured, Andy Schneider, Medicaid Policy, LLC, and Katherine A. Desmond, Consultant.

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