

Episode 126: Long-Term Care Planning (Part 10): Medicaid as A Funding Source

Wed, May 15, 2024 10:59AM • 32:37

SUMMARY KEYWORDS

medicaid, wade, long term care, assets, good, film, non countable, movie, elder law attorneys, watch, state, alex, talk, income, benefits, fistful, qualify, effectively, pickleball, star wars

SPEAKERS

Alex Murguia, Bob French, Wade Pfau

Bob French 00:00

The purpose of retire with style is to help you discover the retirement income plan that is right for you. The first step is to discover your retirement income personality. Start by going to risaprofile.com/style and sign up to take the industry's first financial personality tool for retirement planning. I know it's shocking, but Medicaid, it's kind of confusing. Now I'll let that sink in before turning it over to Alex and Wade to walk through the details.

Wade Pfau 00:50

Hi everyone. Welcome to retire with style. I'm Wade. I'm here with Alex, and for the first time in quite a while, we did not have a guest this week, but we're continuing our ongoing series on long term care. Specifically, we're going to talk about Medicaid as a funding source for long term care today. But before getting into that, Alex, what's new in your world?

Alex Murguia 01:14

What's new searching for guests, searching for Waiting for Godot, no. What's New in my world? Starting to rehab that knee. I've got a big pickleball challenge in the summer with a couple of buddies of mine back home in Miami, and bets have been made. So I need to I need to be ready. I need to be ready come July,

Wade Pfau 01:37

limber, flexible, limber,

Alex Murguia 01:40

all of that for Yeah, and I've never played pickleball, so it's one of those things. So I'll see how well my my ping pong game translates to the world of the pickle. So that should be interesting, man. I think that's it. Oh, and the kids get to go to college. Yeah, they the The twins have selected Virginia Tech. All right, so

Wade Pfau 02:03

hokey. They are top 10 financial planning programs.

Alex Murguia 02:07

Yeah, they got into the one of them did financial planning. The other one was undecided. They really wanted to do finance I think they they were more strategic, and what they picked just to be able to get in the school. But no, we're happy for them, and you know, off they go. It should be exciting to see. And anyone from Virginia Tech listening in, give us a holler. I'd love to connect. What else? What else? No, that's it. For me. The news is you things are coming full circle, as many of you may or may not know, I was a film major and Wade, did the ever competitor is now, now catching up with me on on my on film knowledge, right? Wade,

Wade Pfau 02:52

Alex is always making illusions to classical films that I don't know what he's talking about. So I've been trying to dig into illusions, illusions are illusions, illusions, oh, not a grand illusion. Not illusions. Illusions, none

Alex Murguia 03:07

the grand illusion. Is that a

Wade Pfau 03:09

movie I won't watch? Yeah,

Alex Murguia 03:13

it's a French film during World War Two. It's one of the one of the classics, like, uh, Grand Illusion Casablanca. It's not a love story, but it's in that, in that sort of era, I want to say it's Renoir, who may be mispronouncing it, because Renoir, whatever. But yeah, it's a, it's one of the, you know, like the American song book

Wade Pfau 03:36

started with French, one of the French shot tours. Yet I'm still working my way.

Alex Murguia 03:42

Well, we're Noir is, I don't know if he would be considered a he's not part of the new wave like Godard and Truffaut and Basson and those guys. He's more a little precedes on a little bit, but he's great, yeah, he's more or school, but sort of a, well, that was, that was a reference grand illusion. I don't need to get into it too much, but I saw you had a back and forth. You're name dropping some Japanese movies. All of a sudden,

Wade Pfau 04:07

I've been watching some Japanese films, some American films. I watched Yojimbo and A Fistful of Dollars. So I can now compare and contrast the A Fistful of Dollars was effectively an unapproved remake of Yojimbo and Fistful of Dollars, they had guns, so they did have to change a little bit, versus just having swords with with one pistol in your Jimbo. But, you

Alex Murguia 04:30

know, another one. I'm not, I'm not. I like Star Wars, but I'm not this huge craze Star Wars, Star Wars fan, or anything like that. But the green forest Kurosawa, that's a remake Star Wars is effectively followed. That follows that that sort of storyline. Oh,

Wade Pfau 04:47

yeah, and it's I watched the searchers as well. And I believe the scene where John Wayne goes back to the family homestead is recreated in Star Wars as well.

Alex Murguia 04:56

Is it you speak? Good Comanche from.

Wade Pfau 05:00

Yes, and I watched stagecoach and Casablanca and Rashomon, and I've been watching a bunch of Ozu films. They're they're pretty neat. Tokyo Story,

Alex Murguia 05:11

late spring philosopher, he's not just good in Excel. Wade's a philosopher. I think Ozu, the phrase that they always use is transients through permanence, where, let's say there's a, you know, please don't, don't come at me hard. But you know, there's these scenes where there's like a bottle, bottle, like bobbing in the water, and it sort of gives a sense of transience through permanence. You know, the bottle just remains fixed. But you know, it's like in an ocean bobbing. He's sort of big into that, I believe. But again,

Wade Pfau 05:47

my understanding, there's a Buddhist outlook in his films, and the other sometimes a scene in late spring where it's just a cutaway to a vase on a shelf. And supposedly, it's a big mystery what that represents.

Alex Murguia 05:59

I yeah, sometimes a cigar is just a cigar.

Wade Pfau 06:05

That's always my approach. But it didn't help in high school English, where we're supposed to find the symbolic meaning of everything.

Alex Murguia 06:12

Yeah, I don't know. I mean, he's a good guy, but I think I told you this when we were in Dallas, where I, you know, at the end of the day, I get the whole philosophical stuff. And, you know, you got Ingemar Bergman and people like that. But I also think movies should be entertaining. Sometimes they can be a boar fest, just like reading through it, and you kind of convince yourself, Oh, look how great this is. And you're bored out of your mind. And so, you know, there's that that could be also my ADD, as opposed to the patience, but, but, yeah, that's pretty good. So Wade, which one did you appreciate yogiimbo or Fistful of Dollars?

Wade Pfau 06:49

I liked your Jimbo better and and from what I understand, I have to watch the rest of the spaghetti westerns, but apparently they get better. A Fistful of Dollars was more of the trial run to see how things go and the sets of kind of dollars, good, bad, the good, bad, the bad and the ugly. I

Alex Murguia 07:06

think there's two Westerns in that, I would say three in that period. I mean, I did see the old westerns, like the John Ford and stuff like that. I it's just part of the curriculum, but I kind of dug

a lot the good, the bad, the ugly is, that's that's like Lawrence of Arabia. But for the US, in my estimation, Lawrence of Arabia is another great film. David Lean, but the good, the bad, the ugly is, it's just epic in its and ambitious and what it does. And I thought it was awesome. The other one in that period that I loved is a Pale Rider, which is and that has spiritual overtones. And that's one of, if not the first. I don't think it was the first, but it's one of Clint Eastwood's, you know, start starting directorial debuts. So I thought that was, you know, really cool. And there's another one that I can't, you know, I'm telling you this. Oh, macab and Miss Miller, just out of it. That's a Robert Altman film that's almost like the anti Western. You should really check that one out. That's it filmed in the early 70s. I think Elliot Gould is in that. And there's somebody else I can't place. Oh, warm baby. And it's, it's great. It really is this anti hero kind of Western. They take all the conventions that you would see in westerns, and they kind of turn it on its head, if you will. It's like in the Pacific Northwest. It's, there's, it's not a dry town, you know, it's, again, in the Pacific Northwest, it's really good. That was right. It stuck in my mind a lot, pill rider, McCabe and Miss Miller. And yes, I'm

Wade Pfau 08:45

mainly been using Max for my streaming. Well,

Alex Murguia 08:48

we're gonna do a GoFundMe campaign. So streaming, yeah, so he can get a streaming thing with the criteria, just sell 10 more books. Man, come on, books and you good for the year,

Wade Pfau 09:00

but Paris, Texas, I don't think I'll get through the second half. It just wasn't,

Alex Murguia 09:05

yeah, I hear you. I hear me like, yeah. I mean, like, I like, I said, those are good movies, but to me, they're also entertaining. You know, from that standpoint, I and I and maybe it was because the age I started watching these where I'm in my early 20s, and you watch Bergman, and they're good. I mean, they're very heavy movies, like, through a glass darkly Persona game of death, but at a certain point you're like, my goodness, I don't even drink yet. An hour later, you're drinking, like, Bourbon straight, you know that kind of thing. They're heavy movies, and sometimes, you know you need the bubble gum, but that's fine, but yeah, good for you, man. But still no Godfather, huh?

Wade Pfau 09:50

Oh, I've seen Godfather one that was Bob French who never watched godfather. I still have to watch Godfather two and three, though.

Alex Murguia 09:59

No, don't. Watch three. It's a not worth it. Oh yeah, it's like the when they did the new Star Wars trilogy, like after the first three, they did the next three. It's, it's, it's, it's, it's terrible. I was almost gonna cuss, but I know you're very hesitant to give this an E rating. It's, it's, it sucks. Yeah, I don't know what they were thinking. It's almost like Coppola drank like a gallon of kerosene or something like that for the third one. Now, I think one of the trivia thing is, what's one of the actors that's been in all three movies, besides like Pacino and so forth, Sophia Coppola? Yeah, she was, she was like the baby in the baptism scene. I don't know. They snuck her in somewhere in Godfather two and then three, she's, you know, one of the character she's at, by

the way, I don't think she was a very good actor in that movie, but she's a phenomenal director. Like, what was the movie lost in translation that I love. That movie was Japan. You were probably in Japan when that movie came out right

Wade Pfau 11:01

or, yeah, right around the same time,

Alex Murguia 11:05

lost in translation is, I think, a not good. I think it's a great film. It really is, at her age when she created it makes you kind of jealous. Yeah,

Wade Pfau 11:14

that movie may have just recently had come out, because I think I watched it as part of my preparations for moving to Japan. So really, I

Alex Murguia 11:21

want to say that was even before Scarlett Johansson was really on the scene as well. No, no. Hats off to her. I mean, it's in the jeans, but she did a phenomenal job. But that's not why we're here, right?

Wade Pfau 11:36

There's your film in the 20th century with waiting out, yeah,

Alex Murguia 11:40

well, if you get a sense, right? I can go on and on. I kind of loved it,

Wade Pfau 11:46

but Medicaid is the topic at hand.

Alex Murguia 11:48

Medicaid, yeah, let's talk about, What's that movie? Cocoon. That's that old Ron Howard film with like, you know, yeah,

Wade Pfau 12:03

Wilford Brimley, right? Yeah. He was only maybe, like, 50 years old at the time, or something's crazy, where really he looks like he was much older than he really was. I believe what

Alex Murguia 12:12

we got to do is write a movie about, like a, like an adult center, and they somehow are on the balance. They're right there where they're teetering on bankruptcy or not, and they start a taunting just like the Simpson episode. They keep, you know, people start mysteriously dying,

Wade Pfau 12:29

and there's an archer episode about that too, yeah. But

Alex Murguia 12:33

there hasn't been, like, a horror movie like that. That would be kind of fun. An elderly horror movie where they're, like, taking people out that'd be hilarious and scary. Tell me how the comments come in this week. Wait,

Wade Pfau 12:51

yeah, there were some good ones that the apple podcast reviews.

Alex Murguia 12:54

Oh yeah, you love to remind me

Wade Pfau 13:01

the listeners. Alex, just actually, I was listening to a podcast where they have about 30 to 40 minutes a small talk before getting to the topic at hand, and you just fast forward through that, if just for the folks who didn't realize this is possible.

Alex Murguia 13:23

Well, the other thing is this, I mean, look, we get tired of just doing like the the lectures, you know what I mean, and you can be honest, I mean, and this keeps it fresh for us. When Wade and I are just talking, it just does otherwise. I think we'd have trouble motivated. We wouldn't be as motivated to just get up there and lecture for 30 minutes on the topic and or have canned questions or stuff like that. You know what? If you want that, go to retirement researcher. You know you can knock yourself out with stuff like that. This is, this is more of a I think it's just cool to sort of humanize ourselves and engage with the audience, because you'd be surprised. How many people do write, write to us about certain things and the like, and we get a kick out of it. Wade, do you concur? Disagree? Feel free to describe

Wade Pfau 14:11

I don't have any issue with lecturing, but, uh, I get your point. Nice change of peace.

Alex Murguia 14:20

All right, so what do we got on Medicaid and

Wade Pfau 14:23

and this will be human oriented. Alex tried to experiment with having chat GPT write questions for this episode, but that was a big failure. So we're this is a fully human approach today.

Alex Murguia 14:33

Yeah, we're trying. We're trying, but my laziness knows no bounds. But it didn't work. No, it

Wade Pfau 14:42

didn't work.

Alex Murguia 14:45

Stay tuned, though. We'll get better at prompts.

Wade Pfau 14:49

But the last few episodes we had were with guests, so you have to go back quite a few weeks, I think, at this point where we had one of these episodes where just us working through the

material. We talked about self funding. There's four broad funding strategies, self funding, Medicaid, traditional long term care insurance, and then the hybrid insurance policies that combine, usually life insurance, sometimes annuities, with long term care benefits. So we talked about the self funding. Next on the list is Medicaid, and Medicaid. It is a tough topic to talk about because it's state based, and every state has different rules. So we can't really just say here are the rules for how Medicaid works for funding long term care. We can only talk in broad overtures, but, but, yeah, that's the the idea that we want to get to today. I'm saying Medicaid, not Medicare, to be clear, Medicare is health insurance for people generally 65 and older, Medicaid is health insurance and Long Term Care protection for people who are effectively destitute, which is defined differently from state to state, state to state, but you have in each state particular income limits, asset limits, and if you're under the limits, you can potentially qualify to have Medicaid pay for your long term care expenses.

Alex Murguia 16:16

Wade. Did you mean broad overtures or broad overtones?

Wade Pfau 16:21

I don't know which one is, right?

Alex Murguia 16:24

I don't know either. Actually,

Wade Pfau 16:25

I just, whenever I get a chance to dig at you, I'm

Alex Murguia 16:30

gonna, I'm gonna take it, man, I'm gonna take it. No, yeah, I think so. But who cares, right? I'm sure I have, I have monstrosities on my thing. One thing I would say about this before we get into it, look, this is very specialized. And so just the fact that we're talking about this, we do need to caveat, every state is different. There are, there are, there's very specificity. Items around states and things like that, with regards to income, asset base, etc. Look back periods. And so I do suggest there are elder law attorneys that specifically focus on this. So this podcast is not a podcast in which you take notes and say, aha, this is what I'm doing. This is the podcast that you listen to and sort of say, ah. Let me look into this more

Wade Pfau 17:18

for my yeah for your individual state,

Alex Murguia 17:20

absolutely yeah, in your individual state, because it's just one of those things. So and there are elder law attorneys, not even a financial advisor. There are elder law attorneys that that devote their careers to just this topic.

Wade Pfau 17:32

So, and this topic is Medicaid planning, which

Alex Murguia 17:35

is, yeah, Medicaid planning,

Wade Pfau 17:37

what you can do to not be inefficient with your efforts to if you may potentially qualify for Medicaid at some point.

Alex Murguia 17:45

Yeah, and this is, this is actually specific to, I would imagine that folks listening in. It's probably something relevant to parents, their parents, you know, as opposed to themselves right now. And I guess I'm using myself as an example, and we can talk about it as we get into it, but

Bob French 18:01

curious if you should be looking at a Roth conversion or what a Roth conversion even is, head over to McLean am comm slash Roth to get McLean's free ebook is a Roth conversion right for you, and learn about when you might want to do a Roth conversion and when you might Not just head over to McLean. Am.com/roth to download your free ebook today. Kick it off. Man,

Wade Pfau 18:27

okay, yeah, so it is a common funding mechanism. It is generally the last resort option once you have depleted other resources. It is an important option for people who may not have a lot of savings in retirement, or who may have a very large Long Term Care event that depletes their savings, at some point, it will kick in to continue supporting long term care. It does again. This is every state's different, but limits on assets, limits on income, limit rules around medical need of well, I may have some income, but my large long term care expenses are so great that I can't really afford them. Well, if you live in a state that's based on being categorically needy, what is the then you then you really have to be no resources. You can't have income over the limit. That then is offset by the expenses. But if you're in a state that is more generous with medically needed rules, maybe you have some income, but after you pay for long term care, you you don't you fall below the income net income thresholds, and then you can still receive benefits. And so.

Alex Murguia 19:42

So there's a couple of just you said to two definitions that I encourage people to look into. There's nuance behind it. Categorically needed, sorry, categorically needy and medically needy. Categorically needed is your income and wealth falls below threshold. Well.

Wade Pfau 19:59

Less generous. That's if it would have fallen below the threshold after paying for long term care. You don't get benefits with the categorically needy. You would get benefits with the medically needy. It's more generous. Okay, there

Alex Murguia 20:15

you are. And then what are some basic qualifications for Medicaid? Just as a general level, what are the kind of like, the three legged stool that they kind of look at,

Wade Pfau 20:28

the income limits, the asset limits, and then the rules around the medical qualifications? The answer you're looking for,

Alex Murguia 20:36

yeah, yes, you pass. Great. Why did I need chatgpt?

Wade Pfau 20:43

Chatgpt? Was it? Maybe I don't remember now. Now, when it comes to assets, there are countable assets and there are non countable assets, and so part of the whole idea of, well, Medicaid planning is a term for, can I reposition my assets to qualify for Medicaid to pay for long term care without necessarily just spending down all my assets? So to speak, I can't have a bad reputation. There's philosophical disagreements on the idea. It's but at the end of the day too. I think people who may be able to pay their own way for long term care may not really want to qualify for Medicaid, because the the level of service through Medicaid could be a lot less than if someone can self pay for their long term care needs. But Medicaid planning is about making sure assets that you have are shifted from countable categories to non countable categories. Now this is where every state has different rules, but in some states, non countable categories might include your primary residence, automobiles, assets belonging to the family business, furniture or other personal belongings. And so one simple Medicaid planning strategy would if, if the house is a non countable asset, pay off the mortgage that shifts funds from the investment accounts that are countable to the home equity which is not countable purchase things that you need, like hearing aids, wheelchairs, that sort of thing, maybe even doing home renovations to shift more of those assets into non countable categories. Making gifts can be an option. There is a five year look back rule, though, with anything you've done in the past five years will be studied to see if that was considered kosher, so to speak, for Medicaid purposes. And if you are doing things, making gifts and so forth, within five years, then you may be penalized to not qualify for Medicaid for longer based on the size of that asset divided by the average monthly cost of long term care in the state, and I think nursing care in the state, to then say, okay, you're not eligible for Medicaid for another four months, or whatever the case may be.

Alex Murguia 23:16

Okay, and Wade. And maybe, I don't know if we want to talk about it later on, but let's say you qualify, and all of a sudden, you get a windfall of income, you win the lottery or something like that. That's also, you know, in a funny sort of way, that's something that will can affect you once you once you get it,

Wade Pfau 23:32

yeah, yeah. If, anytime you go up over that asset limit, you would lose access to the Medicaid payments for sure. Now, another area of potentially non countable assets is just set asides available for spouses. So this is also going to vary state by state, but there are resource limits available where, if still a married couple, you don't have to fully deplete the household's assets before you can qualify for Medicaid reserves can be set aside to help support the spouse who doesn't need long term care so that they're not destitute. In this scenario, we talked about the five year look back period and then a one, one issue just with the so even if the home isn't accountable resource after the individual passes away, states have been known to look to claw back on what they paid out in Medicaid benefits so that non countable house may be placed under a lean post death so that the estate might lose some of the potential inheritance that was there. So it's home equity may be non countable during the lifetime of the individual, but not necessarily after the death of the individual, which would be another thing to just keep in mind, but it is hard to talk again about these. Long Term Care Medicaid planning ideas, just because they do vary so much state by state, this is really just meant more as an overview so well, like

you said, Alex, having a specialized elder law attorney who is knowledgeable about the rules in your state is quite important.

Alex Murguia 25:24

No, and I'll, I'll give you some some color on my situation here, my my parents, they're, you know, first generation, and their investments were with their children, making sure that my sisters and myself had an education that was really their investment. So when they got to certain age, they didn't have much, and my dad and my mom are in this process where my my dad's in a he's in a long he's in a nursing home. Effectively, he's in his, I don't know, 9596 and he's better in and at this point with dementia. But there's Medicaid, and it's a nice place, I would say. And maybe this is just one of these things where South Florida is a little different because there's so many people, and there's a lot of folks around there, but my dad has Medicaid in there, and it's, I don't want to say it's, they treat him great. It's one of those that maybe I've looked at with him and my mom, but Medicaid effectively subsidized to stay there and going back to even the income I was telling Wade that every so often, every two months or so, I get a call from the home telling me that his account is building up from Social Security. And then he

Wade Pfau 26:37

pick an account that would be an asset limit, not any. Yeah.

Alex Murguia 26:40

Sorry, sorry, sorry, yeah, it gets his assets over. I forget what the threshold is, right? It's low, but that like one \$2,000 something like that. But I have to spend, you know, \$200 on him, on something, you know, I end up buying, like, shampoo and skin lotion for the entire floor. That way everyone can benefit. But it's one of those things that, because it has to be for his care, it's one of those things that is interesting. It's kind of a dynamic where you get called and you're told, Hey, you gotta, you gotta spend, you know, on behalf of your father. So we do that. And my mom is the opposite where we're, you know, she just used up her asset, the remaining stuff, with regards to her assets, and just taking it to zero, frankly, because eventually there'll be a transition to Medicaid for her in the in the assisted living facility that she's in. And so those are two situations where both of my parents, you know, probably in the near future, if they both, you know, knock on wood for my dad, but that they'll both be in Medicaid, and it would have worked out great for them, from the standpoint of, they didn't have much to begin with. And so it's not like they drew down a \$2 million portfolio on on health care. You know, if they had more than \$10,000 in the bank at any given time, that was a lot of money. So now it's something that they're benefiting from. But it does take, it does, does take some knowledge to navigate around it. Yeah.

Wade Pfau 28:09

And that transition to Medicaid is important that you have you checked with your mother's situation about whether there's no issues with switching from self pay to to Medicaid. Oh, they're

Alex Murguia 28:21

fine, yeah. And part of that is because, again, it's a little bit of a different world in South Florida. And you know, it's, it's not informal. Everything is done by the books and everything, but they treat my mom like a family member there at this point. It's, she's fine there, but they're even helping me do the application. Because they're like, hey, right now I'm, I'm covering the difference out of pocket and and they're like, Hey, when are you going to do this? So you can,

you know, you can get into it. And so they're helping me through it. It's not a it's not a complicated thing. It just needs to be done.

Wade Pfau 28:59

Yeah, uh, Medicaid reimbursements can be less than the actual cost of providing care, so it is helpful to enter into long term care facilities before needing Medicaid, just because you might have access to a better like a nicer room or better quality services and so forth. But then at some point, if you switch to Medicaid, just making sure that well, what all is going to change in terms of the level of care and so forth, it's important to know in advance what that sort of scenario might look like for those who are thinking Medicaid may be in their future. Good, yeah, and that's really about all we can say about Medicaid, just because we can't really get into state by state level specifications with the podcast for a broader audience. But for

Alex Murguia 29:53

me, the takeaway would be, I think most of our listeners are probably self funding some sort. Or buying a policy. But their parents may not be in that position. And if our listeners are like, I'm 51 and so if our listeners are probably between the ages of 45 and 65 this is something to look at with their parents, in the sense of, if you're helping your parents out of pocket and because they have no money, then, you know, I'm sure you thought about it, but this is where Medicaid could actually help them out in a great way. And it's there's no stigma to it. It just is what it is. It's a government program, so take advantage of it. You've paid taxes throughout your career. It's there for a reason.

Wade Pfau 30:38

Very good. Yeah, nice way to sum things up. So thanks everyone for listening today, and we'll continue in the next episode to talk more in depth about long term care insurance, both the traditional and hybrid policies, and then that really is going to complete the arc on specific funding mechanisms, though, I do think we'll have another episode too, talking about all the different features of long term care, like things to understand, what's the waiting period, what's the total benefit pool, what's the inflation adjustment, things like that. That will require next episode as well. So we'll keep moving forward with our long term care arc. Thank you all for listening, and we'll catch you next time on retire with style.

Bob French 31:19

Thank you, everyone. Wade and Alex are both principals of McLean Asset Management and retirement researcher. Both are SEC registered investment advisors located in Tysons, Virginia. The opinions expressed in this program are for general informational and educational purposes only, and are not intended to provide specific advice or recommendations for any individual or on any specific securities to determine which investments may be appropriate for you consult your financial advisor. All investing comes with risk, including Risk of Loss past performance does not guarantee future results if