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Highlights

Highlights of GAO-05-968, a report to congressional requesters

September 2005

MEDICAID

Transfers of Assets by Elderly Individuals to Obtain Long-Term Care Coverage

Why GAO Did This Study

In fiscal year 2004, the Medicaid program financed about $93 billion for long-term care services. To qualify for Medicaid, individuals' assets (income and resources) must be below certain limits. Because long-term care services can be costly, those who pay privately may quickly deplete their assets and become eligible for Medicaid. In some cases, individuals might transfer assets to spouses or other family members to become financially eligible for Medicaid. Those who transfer assets for less than fair market value may be subject to a penalty period that can delay their eligibility for Medicaid.

GAO was asked to provide data on transfers of assets. GAO reviewed (1) the level of assets held and transferred by the elderly, (2) methods used to transfer assets that may result in penalties, (3) how states determined financial eligibility for Medicaid long-term care, and (4) guidance the Centers for Medicare & Medicaid Services (CMS) has provided states regarding the treatment of asset transfers. GAO analyzed data on levels of assets and cash transfers made by the elderly from the 2002 Health and Retirement Study (HRS), a national panel survey; analyzed states' Medicaid applications; and interviewed officials from nine states about their eligibility determination processes.

www.gao.gov/cgi-bin/getrpt?GAO-05-968.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Kathryn G. Allen at (202) 512-7118 or allenk@gao.gov.

What GAO Found

In 2002, over 80 percent of the approximately 28 million elderly households (those where at least one person was aged 65 or over) had annual incomes of $50,000 or less, and about one-half had nonhousing resources, which excluded the primary residence, of $50,000 or less. About 6 million elderly households (22 percent) reported transferring cash, with amounts that varied depending on the households' income and resource levels. In general, the higher the household's asset level, the more likely it was to have transferred cash during the 2 years prior to the HRS study. Overall, disabled elderly households—who are at higher risk of needing long-term care—were less likely to transfer cash than nondisabled elderly households.

Cash Transferred in the Previous 2 Years as Reported by Elderly Households with Varying Levels of Income and Nonhousing Resources, 2002

Median elderly household		Percentage of all elderly households	Percentage of group that transferred cash	Dollar amount of cash transferred	
Income	Nonhousing resources			Median (midpoint)	Mean (average)
≤$24,200	≤$51,500	36.7	10.4	$2,000	$4,000
≤$24,200	>$51,500	13.3	19.0	4,000	8,320
>$24,200	≤$51,500	13.3	27.5	2,000	3,910
>$24,200	>$51,500	36.7	31.7	4,000	12,010

Source: GAO analysis of data from the 2002 Health and Retirement Study.

Certain methods to reduce assets, such as spending money to pay off debt or make home modifications, do not result in penalty periods. Other methods, such as giving gifts, transferring property ownership, and using certain financial instruments, could result in penalty periods, depending on state policy and the specific arrangements made. None of the nine states GAO contacted tracked or analyzed data on asset transfers or penalties applied. These states required applicants to provide documentation of assets but varied in the amount of documentation required and the extent to which they verified the assets reported. These states generally relied on applicants' self-reporting of transfers of assets, and officials from these states informed GAO that transfers not reported were difficult to identify.

To help states comply with requirements related to asset transfers, CMS has issued guidance primarily through the State Medicaid Manual. CMS released a special study in 2005 to help states address the issue of using annuities as a means of sheltering assets. Additionally, CMS officials provide ongoing technical assistance in response to state questions, but noted the challenge of issuing guidance applicable to all situations given the constantly changing methods used to transfer assets in an attempt to avoid a penalty period.

In commenting on a draft of this report, CMS noted the complexity of the current law and commented that data on the precise extent and cost of asset transfers to the Medicaid program have been difficult to gather.