Every week, I sit across from families who had every intention of getting ahead of long-term care costs and Medicaid rules, but waited just a bit too long. A parent is already in rehab after a fall. The hospital discharge planner is pushing for nursing home placement. The family pulls out a folder of recent deeds and bank transfers and asks the same question:

“Can we undo this 5-year lookback problem?”

Sometimes there is a way to mitigate the damage. More often, the options are limited because the planning started after the clock already mattered. The real key is not magic loopholes, but understanding how the lookback works, what the state actually scrutinizes, and how an estate planning attorney structures assets years before care is needed.

Medicaid rules vary by state, so the specifics always belong in a conversation with a local elder law or estate planning attorney. The underlying concepts, though, are remarkably consistent, and they drive almost every strategy I use.

## What the Medicaid 5-Year Lookback Actually Is

Medicaid will help pay for long-term nursing home care if you meet strict financial and medical criteria. To prevent people from giving assets away right before they apply, federal law requires each state to impose a lookback period, typically 5 years, for nursing home Medicaid.

When someone applies, the agency reviews 5 years of financial history. They look for gifts or transfers for less than fair market value. If they find any, they calculate a “penalty period” during which Medicaid will not pay for care, even if the person is otherwise eligible.

Here is the part many families miss: the penalty does not begin when the gift or transfer happens. It starts when the person is both financially eligible and actually applies for Medicaid. That timing surprises people and turns casual, well-intended gifts into very expensive problems.

There is no way to “hide” transfers within the lookback. The safer and more realistic approach is to plan so that large transfers and certain trust strategies are completed more than 5 years before you might need nursing home care.

## Can You Really “Avoid” the Lookback?

You cannot erase the lookback rule. It is built into Medicaid law. What you can do is arrange your planning so that, when the time comes to apply, the previous 5 years do not contain problematic transactions.

From a practical standpoint, “how to avoid the Medicaid 5-year lookback” means:

First, stop making unplanned gifts once long-term care risk is on the horizon. Second, use tools that are not treated as disqualifying transfers if structured properly. Third, if you are going to transfer assets or fund an irrevocable trust, do it early enough that the entire strategy sits outside that 5-year review window.

The conversation I have with a healthy 68-year-old couple looks very different from the one I have with a 79-year-old already in assisted living. Both can benefit from planning, but the younger couple still has the full 5-year runway, and that opens a lot more doors.

## Where a Local Estate Planning Attorney Fits In

Families often start with: “How much does it cost to have an estate planning attorney?” It is the wrong first question, but a fair one.

In my region, a basic estate plan for a straightforward situation might run from a few hundred dollars to a couple of thousand, depending on complexity. Comprehensive elder-focused planning that involves trusts, Medicaid analysis, and deed work can be more. The real question is what you get in return: the ability to protect a lifetime of savings from being wiped out in 18 months of nursing home bills.

When I talk about “comprehensive estate planning” in this context, I am referring to a coordinated set of documents and strategies, tailored to both death and disability. That usually includes wills, powers of attorney, health care directives, sometimes one or more trusts, beneficiary designations, and a plan for how to pay for care without destroying the healthy spouse or disinheriting children.

A local attorney brings three things you cannot get from generic forms:

1. Knowledge of your state’s specific Medicaid rules and exemptions.
2. Familiarity with how local Medicaid caseworkers and nursing homes actually handle edge cases.
3. The judgment to say “this idea you found online will backfire here.”

That last point matters. I have seen families rely on well-meaning advice from friends in other states and then get blindsided when our state treats the same planning as a disqualifying transfer.

## The Role of Trusts in Medicaid and Estate Planning

Trusts sit at the center of most serious Medicaid planning. They also generate the most confusion.

A revocable living trust is a great probate-avoidance tool, but it does not protect assets for Medicaid purposes, because you retain control. An irrevocable trust, if properly drafted and funded early enough, can remove assets from your countable estate for Medicaid, while still allowing you to benefit in limited ways.

Clients often ask, “What are the only three reasons you should have an irrevocable trust?” In practice, I see three major drivers:

- Long-term care and Medicaid protection of certain assets.
- Estate tax planning in higher net-worth families.
- Hard-wired legacy protection for beneficiaries who have vulnerability, such as addiction, disability, or divorce risk.

Those are not the only possible reasons, but they are the ones that justify the loss of control that comes with an irrevocable trust.

### The 5-Year Rule for Irrevocable Trusts

For Medicaid, the “5 year rule for irrevocable trusts” mirrors the general lookback. If you move assets into most types of Medicaid-focused irrevocable trusts, Medicaid treats that funding as a transfer. If you apply within 5 years, the state will likely impose a penalty period.

If you fund the trust more than 5 years before applying, those assets are generally outside the lookback, which is the real protection. That means the trust is not a quick fix once care is imminent. It is a long-term, “do this while you are still fairly healthy” decision.

People sometimes confuse this with the “5 by 5 rule in estate planning,” which usually refers to a withdrawal power in certain trusts that allows a beneficiary to withdraw the greater of 5 percent or $5,000 each year. That 5 by 5 rule is a tax and control concept, not a Medicaid concept, although occasionally both ideas appear in the same trust plan.

### The 7-Year Rule for Trusts

Clients also ask about the “7 year rule for trusts,” which actually comes from United Kingdom inheritance tax law, not U.S. Medicaid. In the U.S., the critical Medicaid lookback for nursing home care is 5 years in most states. If someone mentions 7 years in an American Medicaid context, they are usually mixing systems.

## Can a Nursing Home Take Your House if It’s in a Trust?

This question has a lot of emotional weight, and the answer depends on the type of trust.


If your home is in a revocable living trust that you control, Medicaid still treats the home as yours. The nursing home itself does not “take” the home, but the state may have rights through estate recovery after death, and you may be required to sell or borrow against the home in certain circumstances, subject to exemptions.

If the home is in a properly structured irrevocable trust, and the transfer happened more than 5 years before applying, the home is more likely to be protected from both eligibility calculations and estate recovery. However, mis-drafted trusts, retained control, or last-minute transfers can destroy that protection. That is the downside of putting your house in an irrevocable trust without clear goals and good advice: you give up flexibility, and if you do it wrong, you lose control without gaining protection.


I usually tell clients: an irrevocable trust is not a casual form you sign over a weekend. It affects where you can live, how easily you can sell or refinance, and how family dynamics will play out for years.

## Will or Trust: How to Leave the House to Your Children

Many people start their planning with this question: “Is it better to leave a house in a will or trust?” From a pure estate administration perspective, a revocable living trust often wins. It avoids probate, provides continuity if you become incapacitated, and can help with privacy and speed.

From a Medicaid perspective, a revocable trust alone does not protect the home, but it can coordinate with other strategies, such as life estate deeds or an irrevocable trust, depending on the state. The best way to leave your house to your children usually blends several goals:

- Make transfer of ownership simple and low-cost.
- Minimize capital gains and property tax problems.
- Coordinate with Medicaid and long-term care concerns.
- Respect family dynamics and fairness concerns.

Sometimes the answer is a simple will with the home passing at death. Sometimes it is a transfer on death deed, available in certain states. Other times it involves an irrevocable trust funded early enough to avoid the Medicaid lookback.

What should not be included in a will if you are serious about efficient planning? Beneficiary designations on retirement accounts, life insurance, and certain *estateandtrustlawyer.com Comprehensive Estate Planning Attorney Near Me* payable-on-death accounts generally should not be replicated in the will. The will should not be the place where you try to direct assets that already pass by contract or trust, or you risk conflicting instructions and litigation.

## Bank Accounts, Probate, and Medicaid

People often conflate probate avoidance with Medicaid planning. They are related but different.

Which bank accounts avoid probate? Typically, accounts with a joint owner, payable-on-death (POD) or transfer-on-death (TOD) designations, or accounts titled in a trust. These pass outside the will. That can be helpful for speed and privacy.

For Medicaid, however, those same accounts may still count as your resources during life, even if they avoid probate after death. Making your child a joint owner, for example, may cause problems during the lookback if the joint owner withdraws money for themselves or if the state treats part of the account as a gift.

This is where “what is the Medicaid loophole” becomes a dangerous phrase. There is no legitimate loophole that magically makes a bank account invisible to Medicaid while still giving you full control. Strategies that sound like loopholes rarely survive contact with a real caseworker.

## Gifting, Taxes, and the Lookback

A consistent misconception goes like this: “My accountant said I can give $18,000 per year per child without paying gift tax. So those gifts are safe for Medicaid, right?” Not necessarily.

Federal gift tax rules and Medicaid transfer rules use different tests. The annual gift tax exclusion protects you from owing gift tax or filing certain returns. Medicaid, on the other hand, looks at whether you transferred assets for less than fair market value within the lookback, regardless of federal gift tax consequences.

So when clients ask, “How much can you inherit from your parents without paying taxes?” or “What is the best way to gift money to an adult child?” I answer in layers:

For federal income tax, most inheritances are not taxable as ordinary income. For federal estate and gift tax, the thresholds are very high and most families are under them. For Medicaid, however, almost any gift within 5 years of applying can trigger a penalty, even if it is small and completely legal for tax purposes.

The best way to gift money to an adult child if long-term care is a concern usually involves a broader plan:

Explain the Medicaid implications. Time the gifts, ideally outside the lookback. Coordinate with other estate planning tools, so gifts do not accidentally disinherit a vulnerable sibling or disrupt tax planning. Treat gifts as part of a written strategy, not spontaneous yearly transfers.

Uncoordinated gifting is probably the most common inheritance mistake I see. Parents hand out money freely in their sixties and early seventies, then face a nursing home placement in their late seventies. Suddenly, those well-meant gifts turn into a long Medicaid penalty period that no one can afford.

## Beneficiaries: Who Not to Name, and Why It Matters for Medicaid

Beneficiary designations are powerful. They override your will, and they are easy to change online, which is both a blessing and a curse.

“Who should I not name as a beneficiary?” is a bigger question than most people realize. In the Medicaid and elder law context, there are several categories that raise red flags:

- A minor child, because they cannot legally receive or manage the funds, and a court will likely get involved.
- A beneficiary with a disability who either receives or may need public benefits, because an outright inheritance could disqualify them from SSI or Medicaid.
- Someone with serious creditor issues, addiction, or divorce risk, because their inheritance may simply subsidize their problems or go to third parties.
- A person you are trying to keep eligible for need-based financial aid, housing, or benefits.
- The estate of someone who is themselves in a nursing home on Medicaid, because funds flowing into their estate could trigger reimbursement claims.

The better approach is usually to use a trust for vulnerable beneficiaries. For a disabled child, that may mean a special needs trust. For a beneficiary with money problems, it may mean a discretionary trust that protects assets from creditors and divorce.

These decisions intersect with long-term care planning. I have seen situations where a parent on Medicaid dies and leaves a significant account directly to a spouse who is in a nursing home on Medicaid. That inheritance becomes available resources and suddenly jeopardizes the spouse's coverage. With coordination, that money could have been routed to a protective trust instead.

## What Not to Rely on: Informal Advice and Late-Stage Fixes

A story I see often: a parent starts to decline, and a well-meaning friend suggests a "Medicaid loophole" they heard about. The family transfers the home to children or hastily signs an irrevocable trust using a generic template. Months later, they apply for Medicaid and get a denial based on those very transfers.

The most common inheritance mistake in the elder law context is assuming that what worked for a neighbor will work for your family, in your state, with your timing. There is also a tendency to think of wills and trusts only as tools for distributing property at death, and not as tools that affect eligibility for care during life.

Late-stage fixes do exist. Sometimes we can convert countable assets into exempt ones. Sometimes we can use permissible spend-down strategies such as paying off debt, making certain home improvements, or purchasing specific types of annuities if state law allows. Occasionally, we can use a caregiver child exception or a sibling with equity interest exception to transfer a home without penalty. But those strategies are technical and scrutinized, not broad loopholes.

## Practical Steps if You Are Serious About Planning Around the Lookback

Here is a short, practical sequence I walk many families through when they are still healthy enough to plan:

- Gather 3 to 5 years of financial statements for major accounts, along with deeds and existing estate documents.
- Meet with a local estate planning or elder law attorney who actually files Medicaid applications or works closely with those who do.
- Clarify your primary goals: staying home as long as possible, protecting a spouse, preserving the family home, funding special needs, or something else.
- Decide whether an irrevocable trust, life estate deed, or other long-term structure aligns with those goals, and commit to the 5-year timing if you use them.

- Coordinate beneficiary designations, powers of attorney, and gifting habits so everything pulls in the same direction.

The goal is not perfection but coherence. You want your will, trust, deeds, and daily financial behavior to tell the same story if a Medicaid caseworker reviews them.

## How an Attorney's Strategy Evolves with Your Situation

The strategies I recommend to a couple in their early seventies with modest savings and a house paid off look different from those I offer a single 82-year-old with substantial investments.

For the younger couple, we might:

Discuss whether an irrevocable trust for the home makes sense, fully explaining the loss of direct control and the 5-year rule for irrevocable trusts. Review bank and investment accounts and decide which should be kept in their names, which might move to a revocable trust for probate reasons, and how much liquidity they need. Tighten up powers of attorney so that, if one becomes incapacitated, the other can do last-minute, but still compliant, Medicaid planning if needed.

For the older individual, the focus shifts:

We look closely at recent gifts inside the 5-year lookback, because those are now fixed facts, not planning tools. We model potential Medicaid penalties and consider whether keeping the person at home or in assisted living longer could allow penalties to run while family covers the gap. We coordinate with financial advisors to see what resources can be re-positioned into exempt forms without violating transfer rules.

In both cases, the strategy is local, practical, and grounded in what the family can sustain, not just what looks clever on paper.


Medicaid's 5-year lookback is less a trap than a clock. You cannot stop it or pretend it does not exist, but you can decide when to start paying attention. The families who fare best are the ones who treat long-term care as a planning issue in their sixties, not an emergency in their eighties, and who see an estate planning attorney not as a luxury, but as a guide through a very technical landscape that touches almost every dollar they own.

Parker Law Offices
28202 Cabot Rd 3rd Floor, Laguna Niguel, CA 92677
9493853130