MEDICAID COMPLIANT ANNUITY CASE STUDY

Gift MCA Plan

Planning for a Single Person

Gift/MCA Plan

MEET NORA (82)

After being diagnosed with dementia, Nora enters a nursing home. In order to avoid losing her life savings paying the nursing home bill, she wants to gift some of her wealth to her children and seek Medicaid benefits. She turns to a local financial advisor for help.

CASE FACTS

NORA'S INCOME $1,875	ASSETS $157,000
DIVESTMENT PENALTY DIVISOR $7,600	COST OF CARE $8,800

GOAL

Obtain Medicaid eligibility for Nora as quickly as possible while preserving her assets and creating a wealth transfer to her intended heirs.

SOLUTION:

Nora gifts a portion of her countable assets to her children and purchases a Medicaid Compliant Annuity with her remaining assets. She uses the MCA payments to help pay for her care during her penalty period, after which she will become eligible for Medicaid benefits.

1 DETERMINE THE SPEND-DOWN AMOUNT

Nora is allowed to keep $2,000 in countable assets as her Individual Resource Allowance, and she decides to purchase an Irrevocable Funeral Expense Trust of $12,000. This leaves $143,000 for her to spend down.

Countable Assets:	$157,000
Nora's Allowance:	– $2,000
Funeral Expense Trust:	– $12,000
Spend-Down Amount:	**$143,000**

2 IMPLEMENT THE ANNUITY PLAN

For the plan to work effectively, Nora's MCA term must run congruently with the penalty period caused by the gift to her children. Using a proprietary formula outlined to the right, start by calculating the burn rate—the amount Nora will burn through during each month of the plan—then, the plan length. The length of the plan is rounded up to the nearest whole number—10 months.

To determine the gift amount, the length of the plan is multiplied by the Divestment Penalty Divisor for a total gift of $76,000. The gift is then subtracted from the spend-down amount to determine the single premium amount funded into the MCA, which is $67,000.

Cost of Care:	$8,800
Nora's Income:	– $1,875
Nora's Shortfall:	$6,925
Divestment Penalty Divisor:	+ $7,600
Burn Rate:	**$14,525**
Spend-Down Amount:	$143,000
Burn Rate:	÷ $14,525
Length of Plan:	9.85 Mo
Round Up:	**10 Mo.**
Length of Plan:	10 Mo.
Divestment Penalty Divisor:	x $7,600
Gift Amount:	**$76,000**

3 APPLY FOR MEDICAID

After making the wealth transfer to her children, Nora purchases the MCA and applies for Medicaid. The MCA will pay Nora $6,710 per month for 10 months, which increases her total monthly income to $8,585. During her 10-month penalty period, Nora uses her increased monthly income to pay the nursing home bill. She will have an income shortfall of $215 per month, which she can pay using either her resource allowance or with some help from her children.

Single Premium	**Period Certain**
$67,000	10 Months
Monthly Payout	**Total Payout**
$6,710	$67,100

[Agent's Commission]

The agent assisting Nora receives a commission of $480 on the Funeral Expense Trust sale.

(For illustrative purposes only. Actual commissions may vary.)

ECONOMIC RESULTS

Beginning in month 11, Nora will be eligible for Medicaid benefits.

Her monthly Medicaid co-pay will be $1,825, which equals her income minus her Personal Needs Allowance of $50.

Nora makes a wealth transfer of $76,000 to her children, which is more than 50% of her spend-down amount.

If Nora chose not to proceed with the plan, she would exhaust her entire spend-down amount in about 16 months.

ADDITIONAL CONSIDERATIONS

If Nora predeceases the 10-month plan, she will not have gained any economic benefit.

If Nora's cost of care increases or she has unexpected medical expenses during the penalty period, her children may have to use some of the gifted funds to help pay for her care.

PLANNING TIP

Remember, the client's income cannot exceed their cost of care when using this strategy. When structuring the Gift/ MCA plan and the Medicaid Compliant Annuity, always leave a shortfall of about $200 to ensure the client is well below their income threshold.

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