MEDICAID COMPLIANT ANNUITY CASE STUDY

Institutionalized Spouse MCA Plan

Planning for a Married Couple

Institutionalized Spouse MCA Plan

MEET HANK (80) AND ANNE (80)

Hank has just entered a nursing home, and his wife Anne is worried the cost of the nursing home will quickly drain their life savings. She meets with a financial advisor in the hopes that Hank can become eligible for Medicaid benefits.

CASE FACTS

HANK'S INCOME $1,800	ASSETS $300,000
ANNE'S INCOME $1,500	COST OF CARE $8,000

GOAL

Obtain immediate Medicaid eligibility for Hank while preserving the couple's assets and ensuring Anne has enough income to live comfortably at home via an income shift from Hank.

SOLUTION:

Hank purchases a Medicaid Compliant Annuity to spend down the couple's excess countable assets and accelerate his eligibility for Medicaid benefits. Anne will receive an income shift from Hank under the MMNA rules to maintain her lifestyle in the community.

1 DETERMINE THE SPEND-DOWN AMOUNT

Anne is allowed to keep up to half the couple's countable assets, not to exceed the maximum Community Spouse Resource Allowance (CSRA) of $148,620. To avoid the edge of eligibility, she will retain $145,000, and Hank will retain $2,000 as his Individual Resource Allowance. The couple also purchases Funeral Expense Trusts of $8,000 for each spouse, so they must spend down $137,000.

Countable Assets:	$300,000
Anne's CSRA:	– $145,000
Hank's Allowance:	– $2,000
Funeral Expense Trusts:	– $16,000
Spend-Down Amount:	**$137,000**

2 IMPLEMENT THE ANNUITY PLAN

Hank funds the spend-down amount of $137,000 into a Medicaid Compliant Annuity, which converts their excess assets into an income stream. To limit the monthly income produced by the MCA payments, the term is stretched over Hank's full life expectancy. Since Hank is 80 years old, his Medicaid life expectancy is 8.43 years or 101.16 months.

Single Premium	**Period Certain**
$137,000	101 Months
Monthly Payout	**Total Payout**
$1,360	$137,360

3 APPLY FOR MEDICAID

After purchasing the MCA and eliminating the couple's excess countable assets, Hank becomes eligible for Medicaid benefits. Since Anne's income is below her Monthly Maintenance Needs Allowance (MMNA) of $3,715.50*, she is owed an income shift of $2,215.50 from Hank. With the MCA payments, Hank's total monthly income equals $3,160. After subtracting the income shift to Anne and his Personal Needs Allowance of $50, Hank's monthly Medicaid co-pay is $894.50.

** This assumes Anne is entitled to the maximum MMNA in her state.*

Anne's MMNA:	$3,715.50
Anne's Income:	– $1,500
Income Shift from Hank:	**$2,215.50**
Hank's Income:	$1,800
MCA Income:	+ $1,360
Hank's New Income:	$3,160
Income Shift to Anne:	– $2,215.50
Personal Needs Allowance:	– $50
Hank's Medicaid Co-Pay:	**$894.50**

[Agent's Commission]

The agent assisting Hank and Anne receives a commission of $5,480 on the MCA sale and $1,360 on the Funeral Expense Trust sales.

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

ECONOMIC RESULTS

Since Hank's Medicaid co-pay is only $894.50, the couple saves $7,105.50 per month compared to his original cost of care.

Anne's monthly income increases from $1,500 to $3,715.50 via the MMNA rules.

Since Hank, the institutionalized spouse, owns the MCA, Anne can be listed as primary beneficiary ahead of the state Medicaid agency and can collect the funds upon his passing.*

If the couple chose not to proceed with the plan, they would exhaust their entire spend-down amount in about 17 months.

ADDITIONAL CONSIDERATIONS

If Anne predeceases the annuity term, the full MCA payment reverts to Hank, thus increasing his Medicaid co-pay.

If Anne predeceases Hank and Hank predeceases the annuity term, the state Medicaid agency can recover the remaining benefits from the MCA as contingent beneficiary.

PLANNING TIP

The economic benefits of this plan rely on the couple's income. Determine the community spouse's Monthly Maintenance Needs Allowance and the institutionalized spouse's potential MCA payments before proceeding with the strategy to ensure the income shifts as intended.

**Beneficiary options vary by carrier and may include a discounted refund of the remaining balance or a continuation of payments for the remainder of the annuity term.*

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