

The background is a vibrant teal color with a subtle texture. It features several geometric shapes, including hexagons and triangles, in various shades of teal and grey. In the top left corner, there is a spiral-bound notebook with a dark cover. In the top right corner, there is a silver paperclip. In the bottom right corner, there is another spiral-bound notebook. The overall aesthetic is professional and modern.

# MEDICAID COMPLIANT ANNUITY CASE STUDY

Standalone Plan

# Planning for a Single Person Standalone Plan

## MEET OTTO (82)

Otto's health is quickly deteriorating, so he must enter a nursing home. Rather than lose his life savings paying the monthly bill, Otto wants an opportunity to pass along an inheritance to his children. He turns to a local financial professional for help.



### CASE FACTS



**OTTO'S INCOME**  
\$1,600



**ASSETS**  
\$200,000



**MEDICAID RATE**  
\$6,000



**COST OF CARE**  
\$8,300

## GOAL

Obtain immediate Medicaid eligibility for Otto while preserving his assets and creating a wealth transfer to his intended heirs.

## SOLUTION:

*Otto purchases a Medicaid Compliant Annuity to spend down his excess countable assets and gain immediate Medicaid eligibility. Rather than pay the private pay rate of the care facility, Otto will be responsible for covering the Medicaid Reimbursement Rate, which the state Medicaid agency can recover upon his passing. His remaining assets will then be left for his children.*

## 1 DETERMINE THE SPEND-DOWN AMOUNT

Otto is allowed to keep \$2,000 in countable assets as his Individual Resource Allowance, and he opts to purchase a Funeral Expense Trust of \$8,000. After subtracting his allowance and trust amount from his total assets of \$200,000, Otto must spend down \$190,000.

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Countable Assets:	\$200,000
Otto's Allowance:	– \$2,000
Funeral Expense Trust:	– \$8,000
<b>Spend-Down Amount:</b>	<b>\$190,000</b>

## 2 IMPLEMENT THE ANNUITY PLAN

Otto funds his spend-down amount of \$190,000 into a Medicaid Compliant Annuity, converting his excess assets into an income stream. To minimize the monthly payout, the annuity term is structured using Otto's full life expectancy. At 82 years old, his Medicaid life expectancy is 7.39 years, or 88.68 months, rounded down to 88 months.

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<b>Single Premium</b>	<b>Period Certain</b>
\$190,000	88 Months
<b>Monthly Payout</b>	<b>Total Payout</b>
\$2,165	\$190,520

## 3 APPLY FOR MEDICAID

Otto is immediately eligible for Medicaid benefits, and his total income increases to \$3,765. After subtracting his Personal Needs Allowance of \$50, his monthly Medicaid co-pay is \$3,715. Since the Medicaid Reimbursement Rate at the facility is \$6,000, Medicaid is expending the difference of \$2,285 on Otto each month. Otto passes away after 12 months. The state Medicaid agency, as primary beneficiary, can recover \$27,420, which equals the total amount of benefits paid on Otto's behalf. After subtracting Medicaid's claim and the \$25,980 in total annuity payments from the MCA investment, the resulting figure of \$136,600 is available for Otto's contingent beneficiaries—his children.

\$	
Otto's Income:	\$1,600
MCA Income:	+ \$2,165
Otto's New Income:	\$3,765
Personal Needs Allowance:	– \$50
<b>Otto's Medicaid Co-Pay:</b>	<b>\$3,715</b>
Medicaid Reimbursement Rate:	\$6,000
Medicaid Co-Pay:	– \$3,715
<b>Monthly Difference:</b>	<b>\$2,285</b>
	<small>(Paid by Medicaid)</small>
MCA Investment:	\$190,000
Medicaid's Claim:	– \$27,420
	<small>(\$2,285 x 12)</small>
MCA Payments Made:	– \$25,980
	<small>(\$2,165 x 12)</small>
<b>Residual Balance for Children:</b>	<b>\$136,600</b>



### [Agent's Commission]

The agent assisting Otto receives a commission of \$7,600 on the MCA sale and \$320 on the Funeral Expense Trust sale.

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

## ECONOMIC RESULTS



After becoming eligible for Medicaid, Otto saves \$2,300 per month on care costs. This reflects the difference between the private pay rate of \$8,300 and the Medicaid reimbursement rate of \$6,000.



After residing in the nursing home for 12 months, Otto makes a wealth transfer of \$136,600 upon his passing, which is more 70% of his spend-down amount.



If Otto had done nothing, he would have exhausted his entire spend-down amount in less than 23 months.

## ADDITIONAL CONSIDERATIONS

If Otto lives longer than 42 months, the state Medicaid agency's claim will exceed any residual balance in the annuity.

If Otto's longevity was questionable, his attorney may have opted to proceed with the Gift/MCA Plan instead, since that strategy creates a guaranteed and immediate wealth transfer.

## PLANNING TIP



The economic benefit of the Standalone Plan depends on the individual's lifespan. The longer they live, the more is due to the state Medicaid agency and the fewer residual benefits are available for the contingent beneficiary. Therefore, make sure your client understands the success of this strategy cannot be guaranteed.



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