USING ANNUITIES TO ACCELERATE MEDICAID ELIGBILITY

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ABOUT US

The Krause Agency is a national wholesaler of Medicaid Compliant Annuities and other insurance products designed for the senior market.

We help agents like you offer solutions to elderly clients while boosting your revenue in the process.

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30+
Years of Experience

800+
Active Agents

$400M
Premium Written Annually

TODAY'S GOALS

1. Discuss the basic requirements of the Medicaid program.

2. Identify how a Medicaid Compliant Annuity can be used to accelerate eligibility for benefits.

3. Explore two in-depth case studies.

WHAT IS MEDICAID?

- Medicaid is a **joint federal- and state-funded program** meant for those with limited means.
- Applicants must meet **specific criteria** to qualify, both financial and non-financial.
- Specific rules **vary by state**.

WHY IS MEDICAID IMPORTANT?

- In a nursing home, Medicaid pays for a person's **custodial care**.
- Without financial assistance, the average semi-private room rate is **$7,756 per month**.*
- Qualifying for Medicaid benefits can provide much-needed **financial relief** to those receiving long-term care.

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Genworth Cost of Care Survey 2020

NON-FINANCIAL ELIGIBILITY REQUIREMENTS

- **Resident of a Medicaid-approved facility**
  - *In most cases, this refers to a nursing home.*

- **U.S. citizen or qualified alien**

- **Age 65 or older, blind, or disabled**

FINANCIAL REQUIREMENTS: INCOME

- **Institutionalized Individual**
  - Income from all sources must be less than the private pay rate of the facility.
  - Some states may require a Qualified Income Trust if their income exceeds $2,523.
- **Community Spouse**
  - There are no limits on the income of the community spouse.
  - However, there is an income floor known as the Monthly Maintenance Needs Allowance.

MONTHLY MAINTENANCE NEEDS ALLOWANCE

- **Standard MMNA States**
  - The community spouse is entitled to one standard allowance (typically $3,435).
  - If their income falls below this amount, they receive an income shift from the institutionalized spouse until the allowance is met.
- **Minimum/Maximum MMNA States**
  - There is a minimum figure (typically $2,177.50) and a maximum figure (typically $3,435).
  - The community spouse is always entitled to the minimum but may be entitled to a larger amount if they have significant monthly shelter expenses, not to exceed the maximum.

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FINANCIAL REQUIREMENTS: ASSETS

- **Institutionalized Individual**
  - The Medicaid applicant is entitled to a small Individual Resource Allowance.
  - This amount varies by state but is typically $2,000 of countable assets.

- **Community Spouse**
  - The community spouse is allowed to retain a separate amount known as the Community Spouse Resource Allowance (CSRA).

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COMMUNITY SPOUSE RESOURCE ALLOWANCE

- **Standard CSRA States**
  - The community spouse is entitled to one standard allowance (typically $137,400).

- **Minimum/Maximum CSRA States**
  - There is a minimum figure (typically $27,480) and a maximum figure (typically $137,400).
  - The community spouse is allowed to keep one half of the countable assets as of the snapshot date, not to fall below the minimum and not to exceed the maximum.

EXEMPT VS. COUNTABLE ASSETS

COUNTABLE

- ✓ Bank accounts and cash
- ✓ Stocks and bonds
- ✓ Additional real estate and vehicles
- ✓ IRAs (in most states)

EXEMPT

- ✓ Primary residence
- ✓ One vehicle
- ✓ Personal property
- ✓ Funeral Expense Trust

CAN ASSETS BE GIVEN AWAY?

- No—Medicaid will look back over the **previous 5 years** to see if an applicant transferred any assets for less than fair market value.
- If transfers were made, the applicant will be subject to a period of ineligibility known as the **penalty period**.
- The length of the penalty period is based on the amount transferred and the **Divestment Penalty Divisor** (varies by state).

HOW CAN ASSETS BE ELIMINATED?

- Paying off the mortgage, credit card debt, and other bills.

- Purchasing or improving exempt assets:
  - *The family home, a new car, household furnishings, etc.*

- Purchasing Funeral Expense Trusts.

- Purchasing a **Medicaid Compliant Annuity**.

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MEDICAID COMPLIANT ANNUITIES

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WHAT IS AN MCA?

- A **Medicaid Compliant Annuity** (MCA) is a Single Premium Immediate Annuity with added restrictions to meet the requirements of the **Deficit Reduction Act of 2005** (DRA).
- It contains zero cash value and is only considered income to the owner.
- For Medicaid purposes, it **eliminates excess assets**, allowing for accelerated eligibility.

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REQUIREMENTS OF AN MCA

Irrevocable
- The parties to the contract cannot be changed.

Non-assignable
- The contract cannot be sold to another party.

Equal, monthly payments
- No deferral or balloon payments.

Actuarially sound
- Term of the MCA cannot exceed an individual’s Medicaid life expectancy.

State as beneficiary
- Up to the amount of benefits expended on behalf of the institutionalized individual, though there are exceptions.

HOW IS AN MCA FUNDED?

- **Non-Qualified Funds**
  - A check typically accompanies the MCA application.
  - Quick turnaround time – typically 5 business days.

- **Tax-Qualified Funds**
  - There are two funding options.
    - *Trustee-to-Trustee Transfer and 60-Day Rollover.*
  - Allows the client to fund their MCA with their IRA and avoid immediate tax consequences.

STRATEGY FOR A MARRIED COUPLE

- After the snapshot date and CSRA have been established, any **excess countable assets** (the spend-down amount) can be funded into the MCA for the community spouse.

- Once purchased, the assets are eliminated for Medicaid purposes, and the institutionalized spouse can immediately apply and **qualify for benefits**.

STRATEGY FOR A SINGLE PERSON

- Rather than fund the entire spend-down amount into an MCA, we typically recommend the "Gift/MCA Plan."
- Client uses the divestment rules to their advantage by **intentionally divesting** a portion of their assets and forcing a penalty period.
- The remaining assets are used to **purchase an MCA** that will pay through the penalty period.
- The **economic benefit** lies in the divestment (typically a wealth transfer to a trust or their heirs).

CASE STUDIES

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MEET JOHN AND LINDA

- John (80) and Linda (79) are a married couple.

- Linda can no longer care for John and he must enter a nursing home, which costs $8,000/month.

- They have countable assets that are preventing John from qualifying for Medicaid.

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CASE FACTS

John's Income
$2,000

Total Countable Assets
$400,000

Linda's Income
$1,800

John's Cost of Care
$8,000

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WHAT IF THEY DO NOTHING?

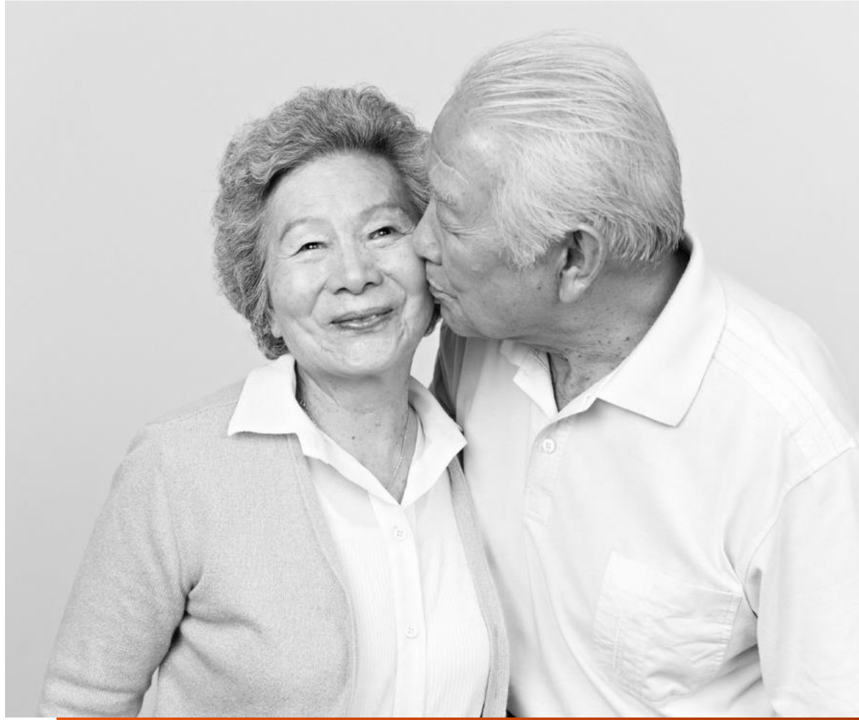
- With the cost of care being $8,000 per month, John and Linda risk depleting their life savings in just 50 months.

- Plus, the more the couple pays for John’s nursing home stay, the less assets are available to Linda to continue her lifestyle at home.

SOLUTION

- Linda can purchase an MCA in order to accelerate John’s eligibility for Medicaid.

- She can immediately eliminate their excess countable assets while also increasing her own income, which will allow her to continue living comfortably in the community.



DETERMINE THE SPEND-DOWN AMOUNT

- Linda may keep the family home, car, furniture, personal property, and $137,400 as her Community Spouse Resource Allowance.
  - *In order to avoid the edge of eligibility, Linda will only keep $135,000.*

- John may keep $2,000 as his Individual Resource Allowance.

Countable Assets:	$400,000
Linda's Allowance:	– $135,000
John's Allowance:	– $2,000
Spend-Down Amount:	**$263,000**

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DETERMINE THE MCA TERM

- With Linda being 79 years of age, her Medicaid life expectancy is 10.45 years/125.4 months.
- Medicaid requires the annuity term be equal to or shorter than the owner’s Medicaid life expectancy.
- This means the maximum MCA term Linda may use is 125 months.

CONSIDERATIONS WHEN CHOOSING THE TERM

USE A LONGER TERM WHEN:

- The community spouse is in good health.
- The community spouse has a family history of longevity.
- The couple is eligible for a shift under the MMNA rules.

USE A SHORTER TERM WHEN:

- The community spouse is in questionable health.
- The community spouse would not receive an income shift.
- The couple is concerned about estate recovery.

The goal is to

CHOOSE A TERM THAT MAKES SENSE WITH THE CASE FACTS.

PURCHASING THE MCA

- In this case, Linda and her agent opt for a three-year term.

Single Premium	Annuity Term	Monthly Payout	Total Payout
$263,000	36 Months	$7,340	$264,240

Owner/Payee: Linda

Primary Beneficiary: The state Medicaid agency for the amount of benefits paid on behalf of John

Secondary Beneficiary: Children

APPLY FOR MEDICAID

- With the MCA purchase, Linda's income increases from $1,800 to $9,140, and the excess assets are eliminated.
- John is eligible for Medicaid and his co-pay is $1,950.

John's Income:	$2,000
Personal Needs Allowance:	– $50
John's Co-Pay:	**$1,950**

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ECONOMIC RESULTS

- John achieves **immediate Medicaid eligibility**. With his co-pay being only $1,950, the couple experiences a monthly savings of $6,050 when compared to the original cost of care of $8,000.

- Linda's **income increases** to $9,140. She has the income she needs to continue living comfortably in the community.

- As Linda accumulates her MCA income each month, John's Medicaid eligibility is not at risk – only his assets will be considered by the state Medicaid agency going forward.

ADDITIONAL CONSIDERATIONS

- Should Linda need to enter a nursing home before the three-year MCA has paid out, the monthly payments will become part of her Medicaid co-pay.

- Similarly, should Linda predecease the term, the remaining funds will be recovered by the state Medicaid agency, up to the amount expended on behalf of John.

MEET CAROL

- Carol (83) is a single woman.
- Her health has been declining over the years and her family decides she must enter a nursing home, which costs $9,000 per month.
- She has countable assets preventing her from qualifying for Medicaid benefits.

CASE FACTS

Carol's Income
$2,000

Total Countable Assets
$155,000

Penalty Divisor
$8,500

Carol's Cost of Care
$9,000

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WHAT IF SHE DID NOTHING?

- With the cost of care being $9,000 per month, Carol risks depleting her life savings in as little as 17 months.

- Should this occur, she'll have nothing to pass on to her loved ones after his passing.

SOLUTION

- Carol can use the Gift/MCA plan to accelerate her Medicaid eligibility while ensuring a wealth transfer to her kids.

- She will divest approximately half of her assets while using the other half to purchase an MCA.

DETERMINE THE SPEND-DOWN AMOUNT

- Carol may keep her personal property and $2,000 as her Individual Resource Allowance.

Countable Assets:	$155,000
Carol's Allowance:	– $2,000
Spend-Down Amount:	**$153,000**

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CALCULATE THE BURN RATE

Cost of Care:	$9,000
Carol’s Income:	– $2,000
Income Shortfall:	$7,000
Divestment Penalty Divisor:	+ $8,500
Burn Rate:	**$15,500**

- This means that for each month of the plan, Carol will *“burn”* through $15,500.
  - *Approximately $8,500 will be consumed by way of the gift.*
  - *Approximately $7,000 will be consumed by way of the MCA.*

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DETERMINE THE MCA TERM

- The purpose of the Burn Rate is to determine how long the penalty period and the MCA term will be.

- To calculate this, divide the spend-down amount by the Burn Rate.

Spend-Down Amount:	$153,000
Burn Rate:	÷ $15,500
Length of the Plan:	**9.8**
	Rounded to 10 months

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DETERMINE THE GIFT AMOUNT

Cost of Care:	10 Months
Divestment Penalty Divisor:	x $8,500
Total Gift Amount:	**$85,000**

- The gift amount of $85,000 will result in Carol being ineligible for Medicaid for 10 months.

PURCHASING THE MCA

- After subtracting the gift amount of $85,000 from the spend-down amount of $153,000, Carol is left with $68,000 to fund into the MCA.

Single Premium	Annuity Term	Monthly Payout	Total Payout
$68,000	10 Months	$6,810	$68,100

Owner/Payee: Carol

Primary Beneficiary: The state Medicaid agency for the amount of benefits paid on behalf of Carol

Secondary Beneficiary: Children

APPLY FOR MEDICAID

- After making the gift and purchasing the MCA, Carol is “otherwise eligible” for benefits. Her Medicaid application commences the penalty period.
- During this time, she will use her income to pay the nursing home bill.
- She will still have a small shortfall to pay to the nursing home each month, which she can cover using her Individual Resource Allowance or help from her kids.

Carol’s Income:	$2,000
MCA Income: +	$6,810
Total Income:	**$8,810**

ECONOMIC RESULTS

- After the 10-month penalty period, Carol's monthly income reverts to $2,000. After accounting for her $50 PNA, **her monthly co-pay equals $1,950**.
- Carol is able to make a **wealth transfer** of $85,000 to her children. This is more than 50% of her spend-down amount.
- Carol's children can use their gift amount to **enhance Carol's quality of care**, paying for things not covered by Medicaid such as pajamas, a motorized wheelchair, a sitting chair, and cable television.

ADDITIONAL CONSIDERATIONS

- If Carol were to predecease the 10-month plan, she would not have gained or lost any economic benefit, as she would have been privately paying during this time.

- If her cost of care increases or she has unexpected medical expenses, her children may have to use some of the gifted funds to help pay for her care.

WHERE CAN I LEARN MORE?

- Gain additional insight into this product, including how to make it part of your business, with our all-new **2022 Agent Guide**!

- The Agent Guide includes:
    - *An in-depth look at the long-term care planning opportunity*
    - *Detailed examples showcasing the strategies we've discussed*
    - *Real-life case studies illustrating Medicaid Compliant Annuities*

Claim your FREE copy at **thekrauseagency.com/agentguide.**

THANK YOU!

For more information, go to ***thekrauseagency.com***.

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