Crisis Medicaid Planning and Medicaid Compliant Annuities

Presented by
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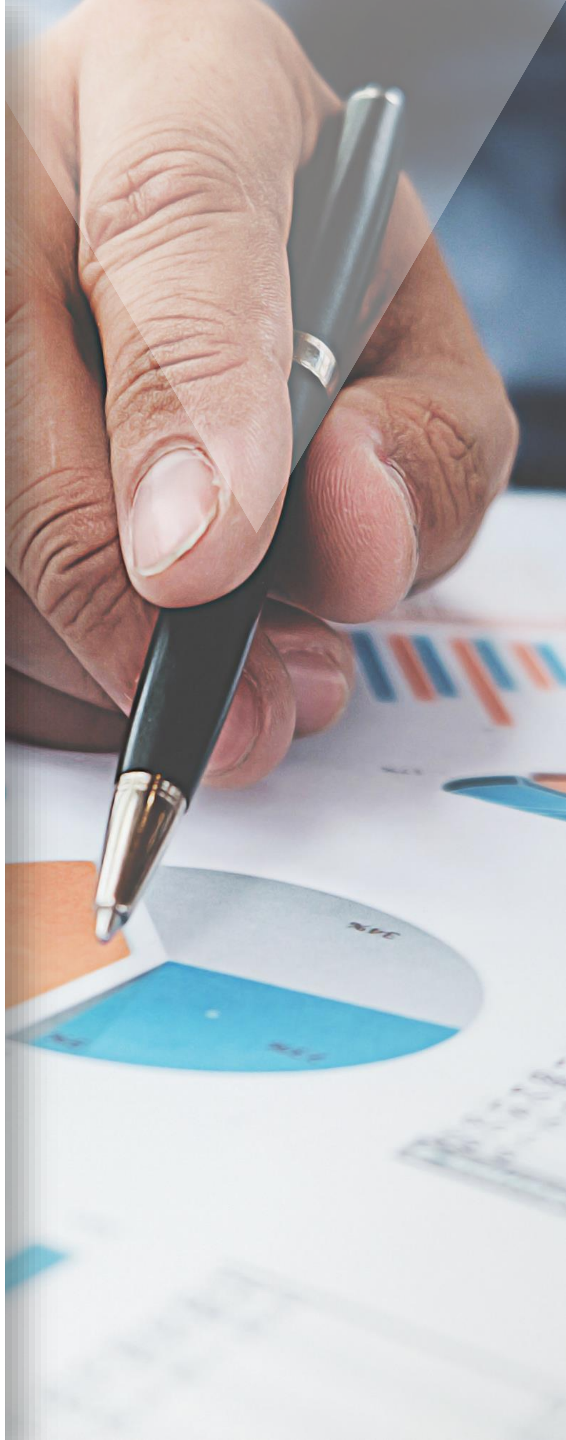

About Us

The Krause Agency is a national wholesaler of Medicaid Compliant Annuities, long-term care insurance, Medicare products, funeral pre-planning products, and other insurance products designed for the senior market.

We help financial professionals bring long-term care and asset preservation solutions to their aging clients.

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30+
Years of Experience

$500M+
Premium Written Annually

1,300+
Active Agents

Today's Goals

DISCUSS the financial and non-financial regulations related to the Medicaid program.

EXPLORE the concept of crisis Medicaid planning and the Medicaid Compliant Annuity.

ILLUSTRATE two case studies showing the Medicaid Compliant Annuity in action.

Long-Term Care & Medicaid Planning

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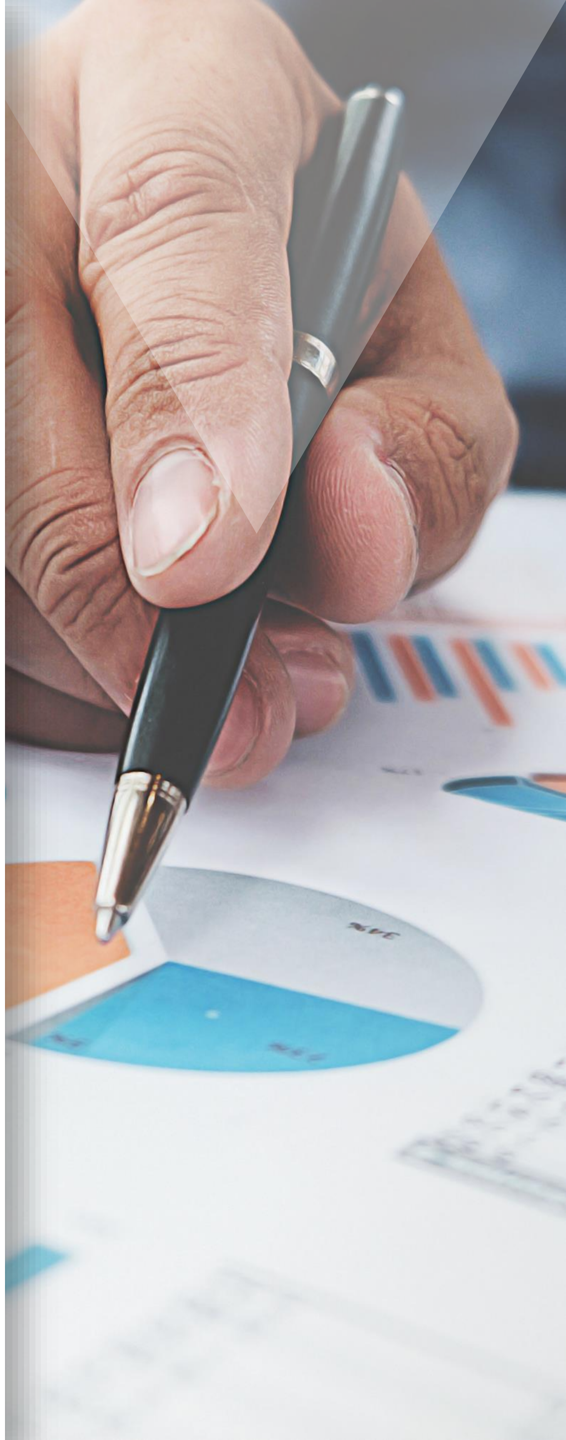

What Is Long-Term Care Planning?

- Long-term care planning is the **financial planning surrounding a long-term care event**.
- Goals of long-term care planning include:
  - *Avoiding or mitigating financial stress associated with long-term care*
  - *Preserving assets for a healthy spouse or the next generation*

The Cost of Long-Term Care

- **Over 50% of individuals** turning 65 today are expected to require long-term care.[1]
- The average cost of a semi-private room in a nursing home is **almost $105,000**.
- By 2029, **54% of seniors** will not have enough financial resources to pay for long-term care.[2]

How much does the nursing home cost?

$8,669/mo.[3]

$104,028/yr.

1. U.S. Department of Health and Human Services | 2. Health Affairs | 3. Genworth Cost of Care Survey 2023

How Does This Impact Seniors?

2.8 years

is the average projected length of a long-term care event. 20% will need care for more than five years.

(U.S. Department of Health and Human Services)

2050

The number of Americans who require long-term care will more than double by 2050.

(Centers for Medicare and Medicaid Services)

50%

Less than 50% of individuals over 65 have set aside money to pay for long-term care.

(2022 KFF Survey on the Affordability of Long-Term Care)

Bottom line: The cost of long-term care has a detrimental effect on your senior client's retirement plan.

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Long-Term Care Insurance and Pre-Planning

- The best way to engage in long-term care planning is to purchase a **long-term care insurance policy** that provides coverage for a future long-term care event.

- Policies can be tailored to the individual's needs and budget; however, many people fail to pre-plan and purchase long-term care insurance while they are young enough and healthy enough to qualify for a policy.

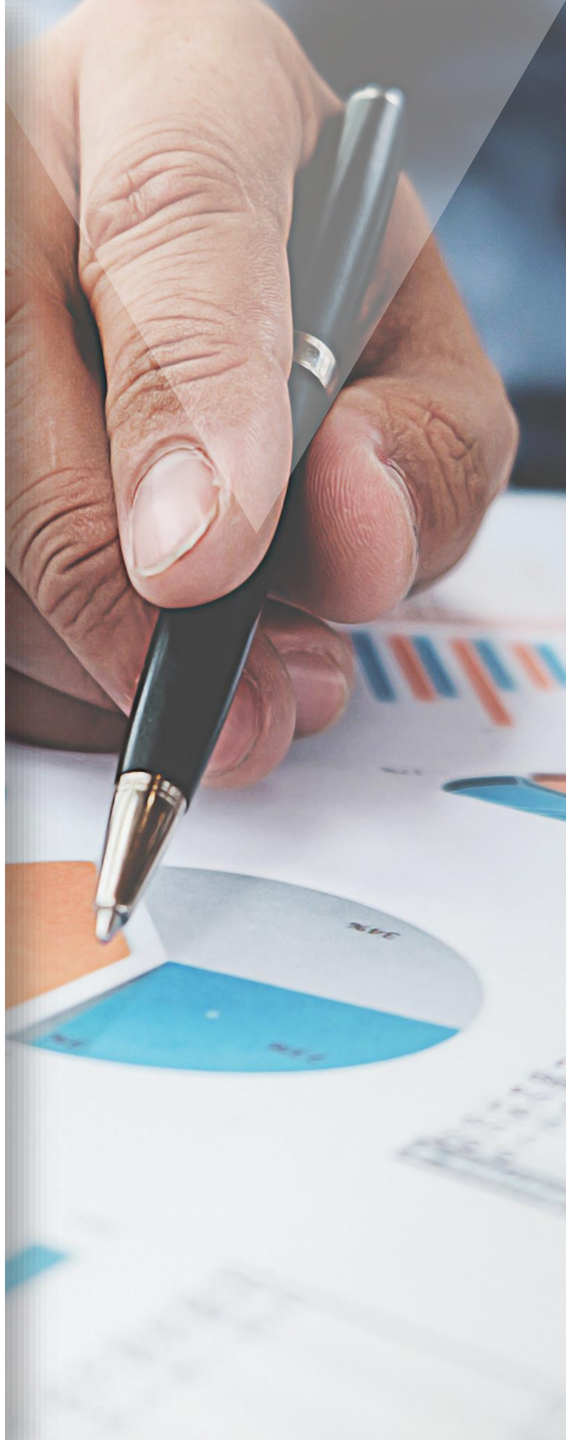
The Solution: Medicaid Planning

- The unfortunate reality is many seniors who require long-term care are **unprepared for the high costs**.
- As seniors and their families realize the cost of long-term care and the limited options to pay for it, they **need a qualified professional** on their side.
- Medicaid planning allows you to help these seniors **protect their hard-earned assets and accelerate their eligibility** for benefits.

What Is Medicaid Planning?

- Crisis Medicaid planning is the **legal rearranging of one's assets** to fit within the parameters of the Medicaid program.
- It is designed to help those currently in a nursing home or about to enter one **accelerate their Medicaid eligibility**.
- Once eligible, Medicaid will pay for **the majority of their care costs**, minus a small co-pay.
- In short, Medicaid planning helps people **qualify for Medicaid without depleting their assets** first!

Breaking Down the Medicaid Program



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What Is Medicaid?

- Medicaid is a **joint federal and state-funded program** that provides health coverage to those with limited means.
- Applicants must meet **specific financial and non-financial criteria** to qualify.
- Specific rules **vary by state**.

Non-Financial Requirements

- In order to qualify for Medicaid, an applicant must:
  - *Be a U.S. citizen or a qualified non-citizen*
  - *Be age 65 or older, blind, or disabled*
  - *Reside in a Medicaid-approved facility*

Financial Requirements

- The financial requirements for Medicaid can generally be divided into two categories:

INCOME & **ASSETS**

- There are **specific rules and considerations** for each category.

Types of Income

- **Earned Income:** Income from wages earned in exchange for services (e.g., employment income)
- **Unearned Income:** Income from other sources, such as Social Security, pension, RMDs, and interest
- *Both are countable for Medicaid purposes.*

Institutionalized Person:
Income Limitation

- To qualify for Medicaid, the institutionalized person's income from all earned and unearned sources **must typically be less than the private pay rate of the facility**.
- The institutionalized person's income, minus a few allowable deductions, becomes their **Medicaid co-pay** to the nursing home.

Institutionalized Person:

Medicaid Co-Pay

- The Medicaid co-pay is the portion of the institutionalized individual's income that they **pay to the nursing home** once they are approved for benefits.
- The co-pay is calculated using the individual's total income, minus certain deductions, including:
  - *Personal Needs Allowance*
  - *Certain medical expenses*
  - *An income shift under the* ***Monthly Maintenance Needs Allowance*** *rules*

Institutionalized Person:

Income Cap

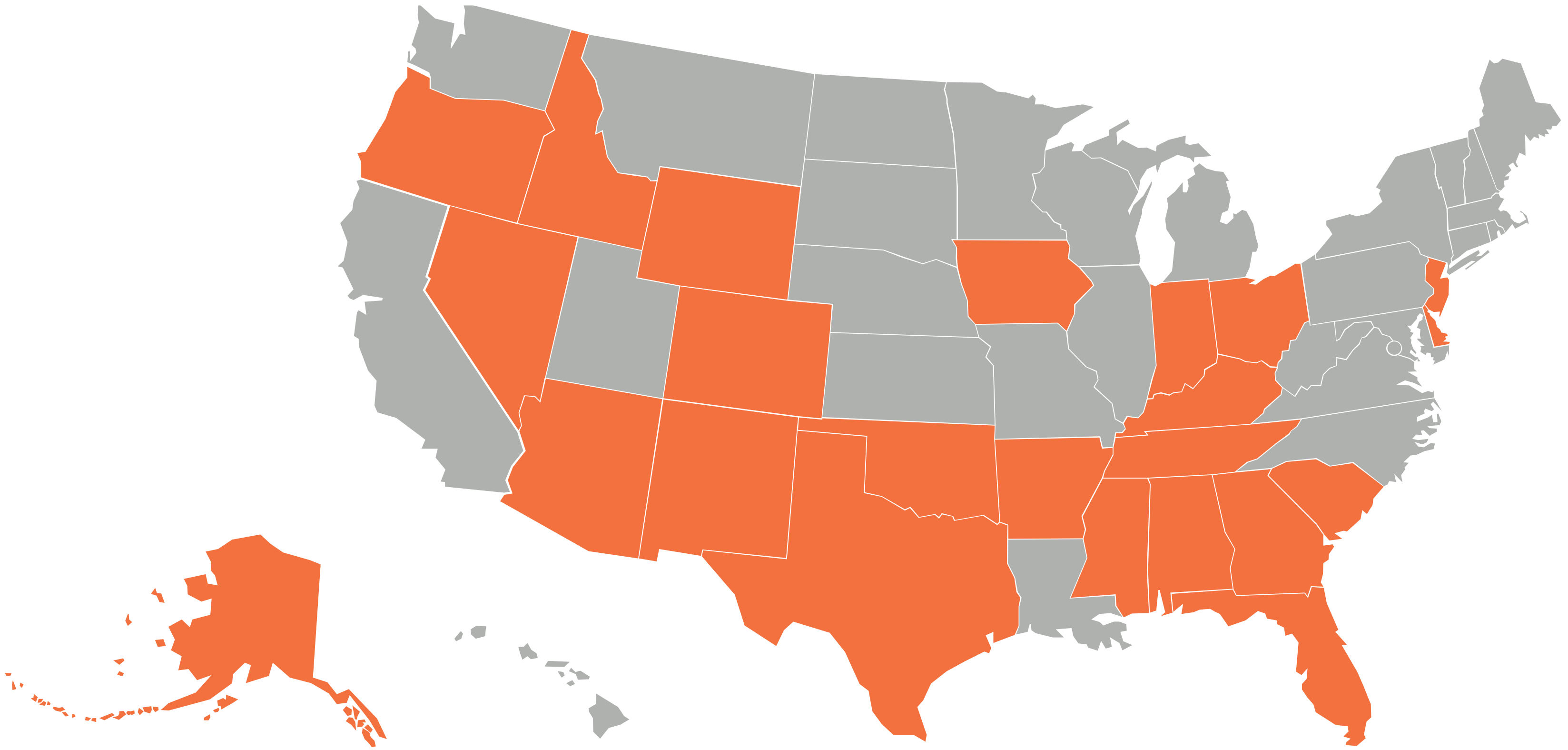
- Some states apply an additional income cap for the institutionalized individual.
  - *The income cap is typically 300% of the SSI Federal Benefit Rate.*
  - *Currently* ***$2,829*** *(in most states)*
- If the applicant's income exceeds this amount, they must establish a **Qualified Income Trust** (QIT), also known as a Miller Trust.
- A QIT is an **irrevocable, income-only trust** that is established for the sole purpose of Medicaid eligibility in states that apply an income cap.

Institutionalized Person:
Requirements of a QIT

- Any monthly income in excess of the cap must be deposited to a bank account owned by the QIT.
- The QIT trustee pays the applicant's **monthly medical expenses** and provides the applicant their Personal Needs Allowance and income to the community spouse, if qualified.
- Any remaining funds stay in the QIT.
- The state Medicaid agency has the **right to recover** these funds after the applicant's death.

Institutionalized Person:

QIT Treatment by State



QIT required

QIT not required

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Community Spouse:
Income

- There are **no limits on the income of the community spouse**.
- Therefore, the community spouse can have an unlimited amount of income and still qualify the institutionalized spouse for Medicaid benefits.
- However, if their income is below a certain amount, known as the **Monthly Maintenance Needs Allowance**, they are entitled to a portion of the institutionalized spouse's income.

Community Spouse:
Monthly Maintenance Needs Allowance

- The Monthly Maintenance Needs Allowance (MMNA) is the **amount of monthly income** to which the community spouse is entitled.
- If their income is below this amount, they are entitled to a shift in income from the institutionalized spouse, dollar-for-dollar, until the allowance is met.
- Some states apply one standard figure that the community spouse is always entitled to.
  - ***Standard MMNA:*** *currently $3,853.50 (in most states)*

Community Spouse:
Min/Max MMNA States

- Other states apply a minimum and maximum allowance.
- They are always entitled to at least the minimum MMNA, but they may be entitled to a larger amount, not to exceed the maximum.
  - ***Minimum MMNA:*** *currently $2,465 (in most states)*
  - ***Maximum MMNA:*** *currently $3,853.50 (in most states)*
- This is calculated using the **Standard Utility Allowance** and the **Shelter Standard**.

Community Spouse:
Standard Utility Allowance

- Rather than calculate actual utility expenses each month, the state Medicaid agency **applies a standard figure** to count toward the community spouse's utility bills (electricity, water, gas, heat, etc.) – this is the Standard Utility Allowance.

- The figure **varies by state**.
  - *Ex: Arizona's is $318, and Wisconsin's is $502.*

Community Spouse:
Shelter Standard

- The Shelter Standard is the amount of **monthly shelter expenses** the community spouse is responsible for.
  - ***Shelter Standard:*** *currently $739.50 (in most states)*
- If their shelter expenses exceed this amount, their MMNA is increased dollar for dollar from the minimum, not to exceed the maximum.

Shelter expenses may include:

- *Mortgage, rent, or condo fees*
- *Homeowner's insurance*
- *Real estate taxes*
- *Standard Utility Allowance*

Community Spouse:

MMNA Calculation

STEP 1
Determine the Monthly Shelter Expenses

Mortgage:	$950
Real Estate Taxes:	+ $150
Homeowner's Insurance:	+ $95
Standard Utility Allowance:	+$724
Total Expenses:	**$1,919**

STEP 2
Determine the Excess Expenses

Total Expenses:	$1,919
Shelter Standard:	– $739.50
Excess Expenses:	**$1,179.50**

STEP 3
Determine the MMNA

Excess Expenses:	$1,179.50
Minimum MMNA:	+ $2,465
Resulting MMNA:	**$3,644.50**

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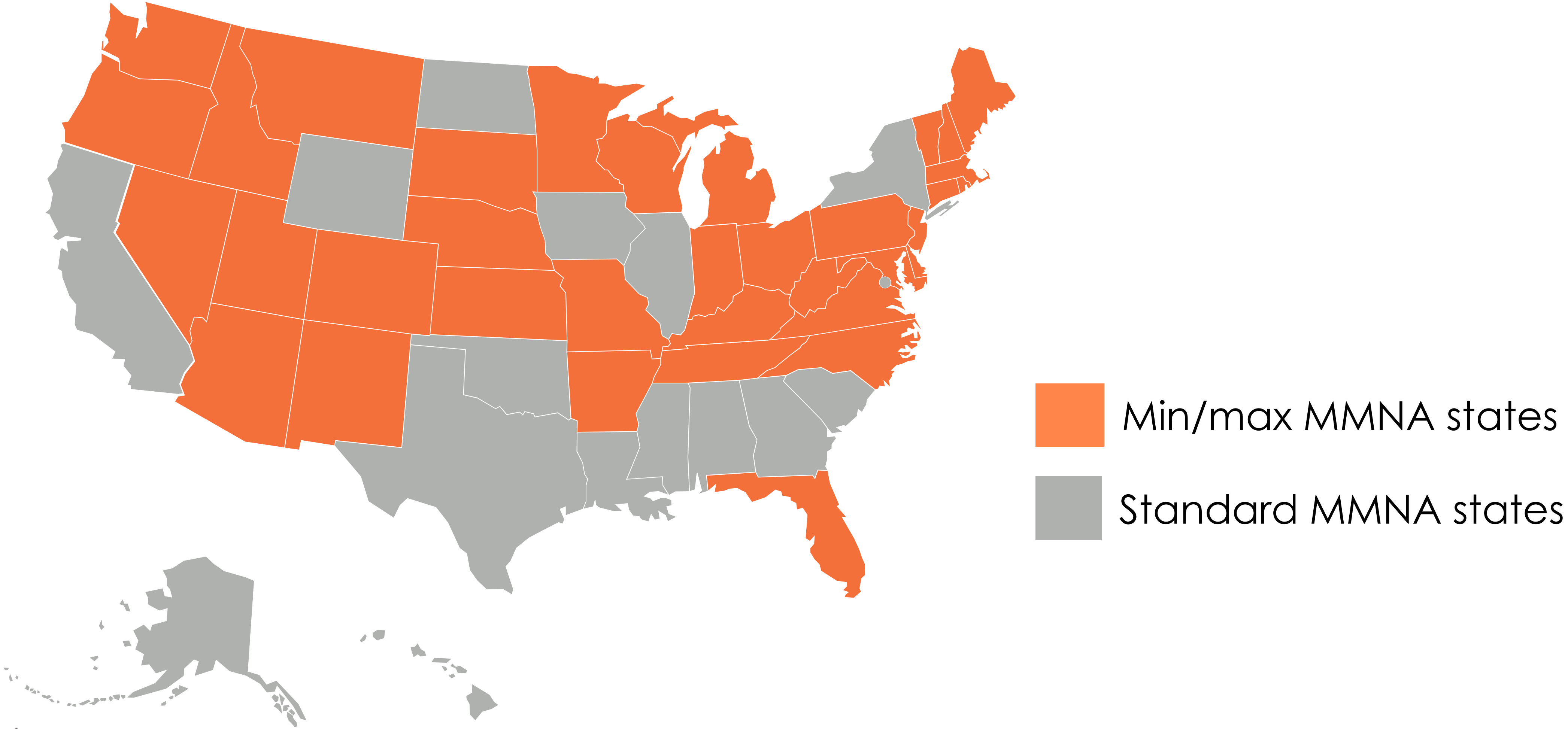
Community Spouse:

MMNA Treatment by State



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Asset Limitations

Institutionalized Individual

Allowed to keep **$2,000** in countable assets in most states

Community Spouse

Allowed to keep a separate allowance known as the **Community Spouse Resource Allowance**

Community Spouse Resource Allowance

- The Community Spouse Resource Allowance (CSRA) is the **amount of countable assets the community spouse may keep**.
- Any assets exceeding this amount must be spent down before the institutionalized spouse can qualify for benefits.
- Some states recognize a standard CSRA (currently **$154,140** in most states).

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Min/Max CSRA States

- Other states recognize a minimum (currently **$30,828**) and maximum CSRA (currently **$154,140**).
- The community spouse is entitled to one half of the couple's total countable assets as of the **snapshot date**, not to fall below the minimum and not to exceed the maximum.
- The snapshot date is the date the institutionalized spouse first entered care on a continuous basis (at least 30 days).

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CSRA Calculation (Example 1)

December 3
Harold enters a nursing home.
Assets: $198,000

30 Days

December 1
Harold breaks his hip and enters the hospital.
Assets: $200,000

March 15
Harold's spouse determines he needs to stay in the facility indefinitely and contacts an advisor.
Assets: $160,000

What is the CSRA?

Harold's
Snapshot Date:

December 1

Total Countable Assets
as of That Date:

$200,000

Harold's
Spouse's CSRA:

$100,000

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CSRA Calculation (Example 2)

July 1
Mary enters a nursing home.
Assets: $470,000

July 25
Mary's condition improves and she returns home.
Assets: $460,000

November 1
Mary reenters the nursing home.
Assets: $440,000

30 Days

January 1
Mary's spouse determines she must stay in the facility indefinitely and contacts an attorney.
Assets: $200,000

What is the CSRA?

Mary's
Snapshot Date:

November 1

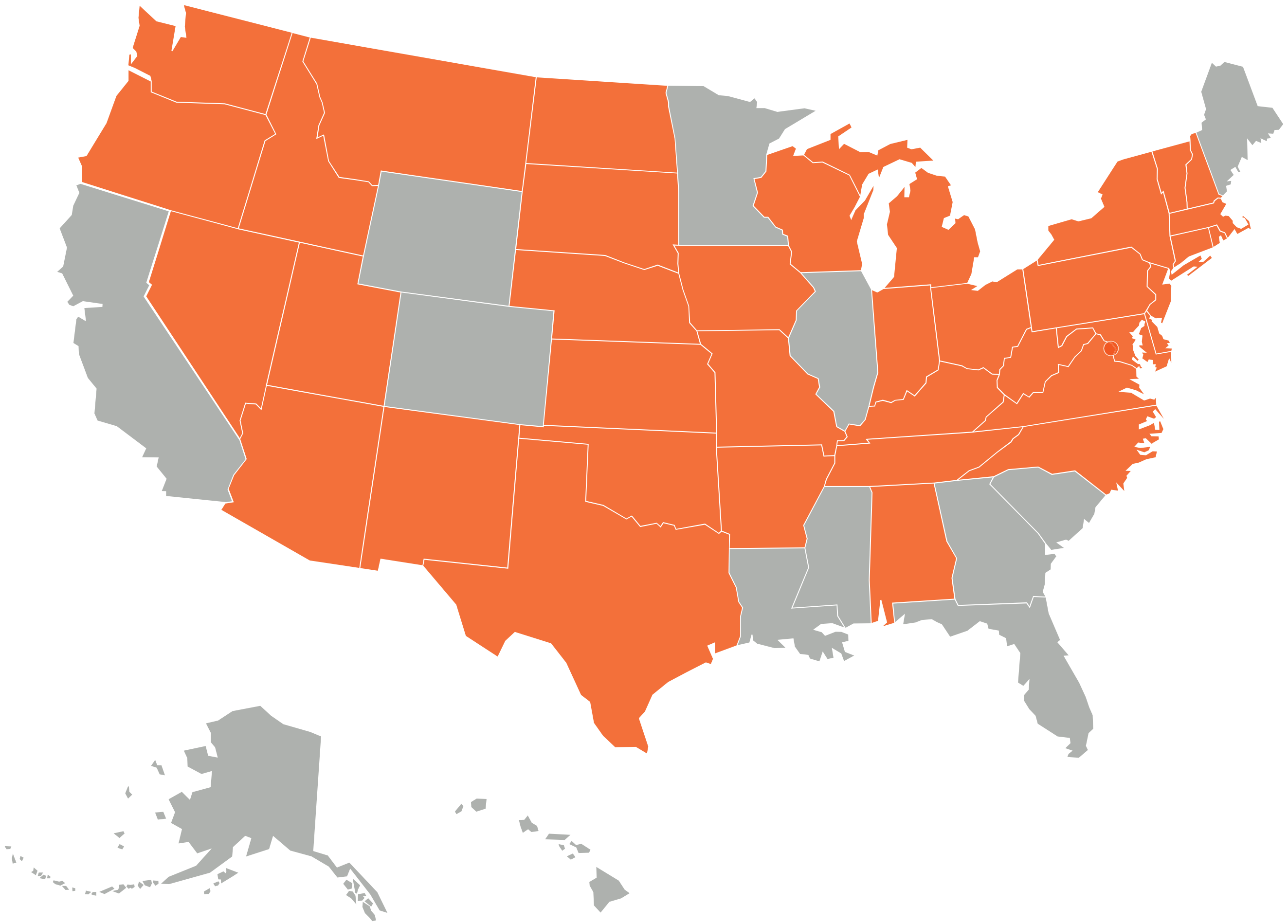
Total Countable Assets
as of That Date:

$440,000

Mary's
Spouse's CSRA:

$154,140

CSRA Treatment by State



Min/max CSRA states

Standard CSRA states

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Exempt vs. Countable Assets

Exempt assets do not count toward one's resource allowance.

- Primary residence (home equity limit of $713,000 to $1,071,000 may apply
- One vehicle
- Personal property
- Life insurance (face value of $1,500 or less in most states)
- Funeral expense trusts (face value of $15,000 or less in most states)

Countable Assets do count toward one's resource allowance.

- Checking, savings, and other bank accounts
- Stocks, bonds, and mutual funds
- Deferred annuities
- Additional property and vehicles

What About IRAs?

- Exempt or countable status for IRAs **varies by state**.
  - *In some states, IRAs of both spouses are considered exempt.*
  - *In other states, only IRAs belonging to the community spouse are exempt.*
  - *In most states, IRAs belonging to either spouse are considered countable assets and must be spent down.*

**In some states an IRA is only exempt if the owner is taking their Required Minimum Distributions.*

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IRA Treatment by State

- Applicants **can't simply give away assets** in order to reduce their countable assets.
- This is commonly referred to as a **divestment**.
- Divestments include:
  - *Giving assets away for no compensation*
  - *Selling assets for less than fair market value*

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The Lookback Period

- The state Medicaid agency will **look back over the previous 60 months** from the time of the Medicaid application to see if the applicant made any divestments.
- If divestments have been made, the applicant is **subject to a period of Medicaid ineligibility**.

The Penalty Period

- The penalty period is the **period of Medicaid ineligibility the applicant is subject to** if they made divestments within the lookback period.
- The penalty period is determined by dividing the total amount gifted within the lookback period by the **Divestment Penalty Divisor**.
- The Divestment Penalty Divisor **varies by state** and is generally based on the average cost of care in that state.

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“Otherwise Eligible”

- For the penalty period to begin, the applicant must be considered **“otherwise eligible”** for benefits.
- That means the applicant must be **medically and financially eligible** for Medicaid in all areas except for the divestment.
- If the applicant doesn’t meet this criteria, the penalty period clock will not start.

Spending Down Assets

- Since applicants cannot simply give away their assets to achieve Medicaid eligibility, they must **spend down their excess countable assets** with the help of an attorney.
- Typical spend-down methods include:
  - *Purchasing or improving exempt assets*
  - *Paying off the mortgage, credit card debt, or other liabilities*
  - *Purchasing funeral expense trusts*
  - *Purchasing a* **Medicaid Compliant Annuity**

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The Medicaid Compliant Annuity

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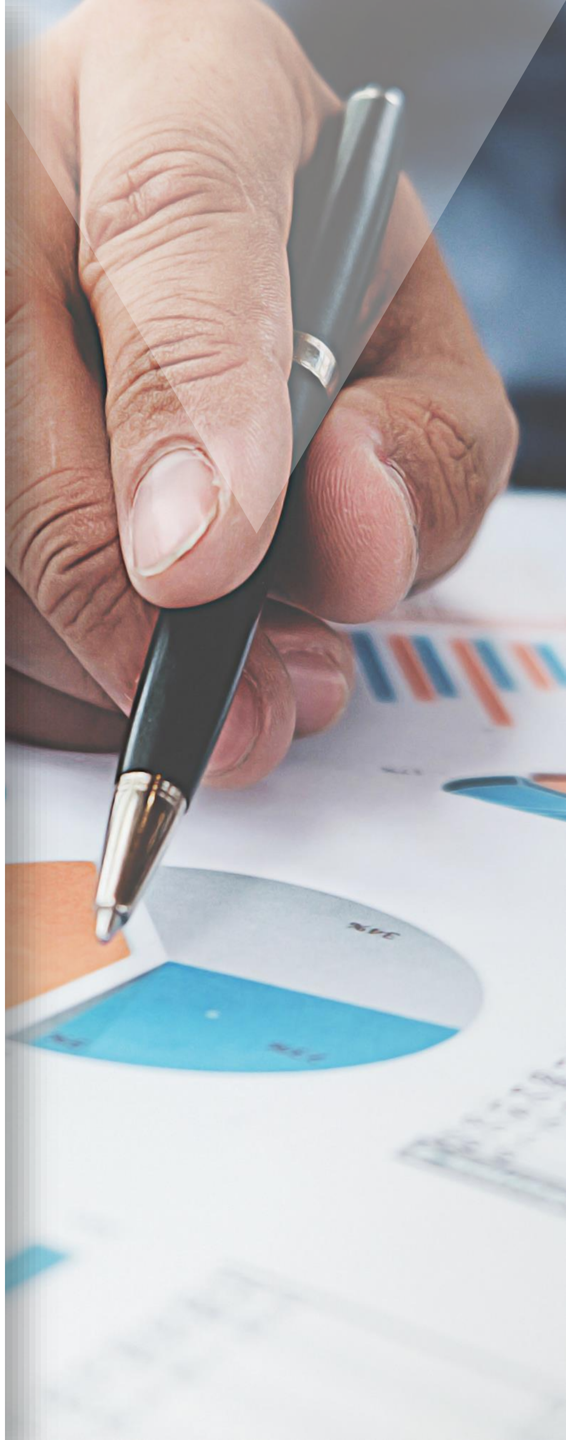

What Is a Medicaid Compliant Annuity?

- A **Medicaid Compliant Annuity** (MCA) is a Single Premium Immediate Annuity (SPIA) with added restrictions to meet the requirements of the Deficit Reduction Act of 2005.
- An MCA **converts excess countable assets into an income stream** with zero cash value.

How Does an MCA Work?

- For Medicaid purposes, an MCA **eliminates excess assets and accelerates eligibility** for benefits.
- Strategies and best practices for using MCAs vary depending on the case facts.
- In order to be Medicaid compliant, an annuity must meet **five main requirements**.

Requirements of an MCA

IRREVOCABLE

The payment amount, term, and parties of the annuity contract cannot be altered.

NON-ASSIGNABLE

The contract cannot be transferred to another party or sold on the secondary market.

ACTUARIALLY SOUND

The term of the annuity must be equal to or less than the owner's Medicaid life expectancy.

EQUAL PAYMENTS

The contract must provide equal monthly payments with no deferral or balloon payments.

STATE AS BENEFICIARY

The state Medicaid agency typically must be named primary beneficiary to the extent of benefits paid on behalf of the Medicaid recipient, though exceptions exist.

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**
  - Two funding options: **Trustee-to-Trustee Transfer** or **60-Day Rollover**
  - Allows the client to fund an MCA with their IRA and avoid immediate tax consequences

Strategy for a Married Couple

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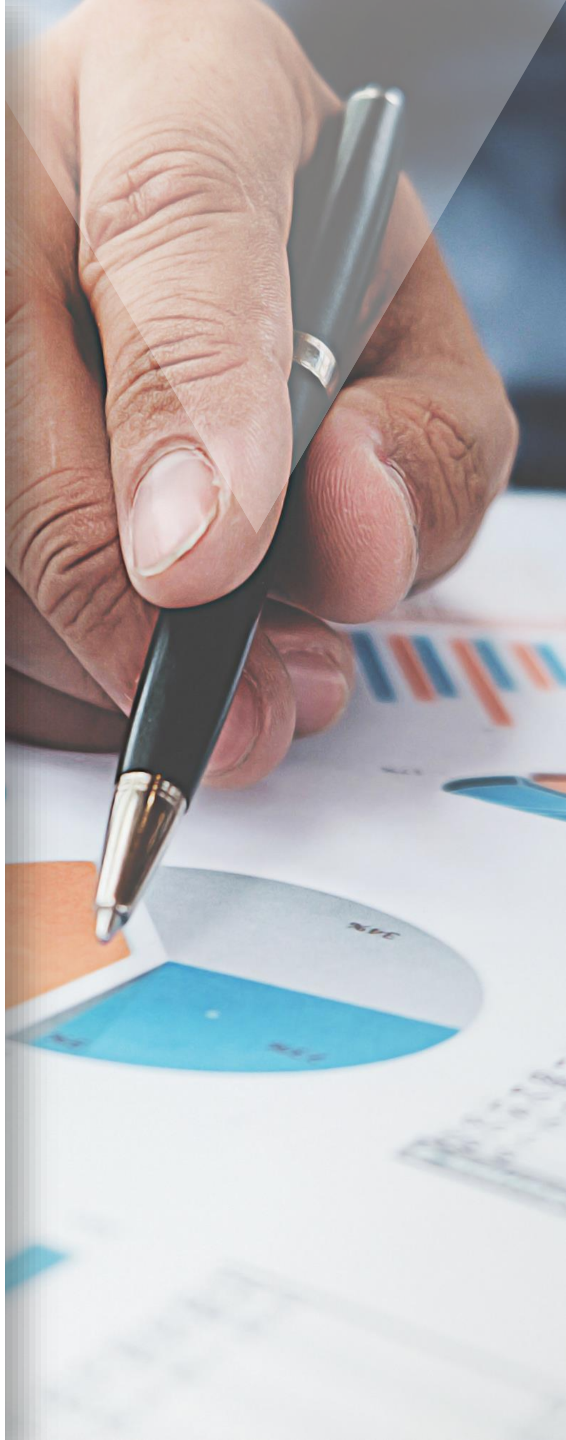

Strategy for a Married Couple

- Any countable assets exceeding the Individual Resource Allowance and CSRA are funded into an **MCA for the community spouse**.
- After purchasing the MCA, the couple's assets are eliminated for Medicaid purposes, and the **institutionalized spouse can immediately apply and qualify** for benefits.

Meet John and Linda

- John (81) and Linda (79) are a married couple.
- Linda can no longer care for John, and he must enter a nursing home that costs $8,000/month.
- They have countable assets that are preventing John from qualifying for Medicaid.

Case Facts

John's Income
$2,300

Total Countable Assets
$350,000

Linda's Income
$2,100

John's Cost of Care
$8,000

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What if They Do Nothing?

- Since John's cost of care is $8,000 per month, John and Linda risk depleting their countable assets in as little as **43 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.

TOTAL COUNTABLE ASSETS:
$350,000

÷

COST OF CARE:
$8,000
per month

=

THE RESULT:
43.75
months of private pay

Calculate the Spend-Down Amount

- Linda can keep the family home, car, furniture, personal property, and $154,140 as her Community Spouse Resource Allowance.
  - *In order to avoid the edge of Medicaid eligibility, we recommend Linda keep no more than $150,000 as her CSRA.*
- John may keep $2,000 as his Individual Resource Allowance.

TOTAL COUNTABLE ASSETS:
$350,000

-

LINDA'S ALLOWANCE:
$150,000

-

JOHN'S ALLOWANCE:
$2,000

=

SPEND-DOWN AMOUNT:
$198,000

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Determine the MCA Term

- Since Linda is 79 years old, her Medicaid life expectancy is 9.7 years, or 116.4 months. This means the maximum MCA term Linda may use is 116 months.
- Medicaid requires the annuity term be equal to or shorter than the owner's Medicaid life expectancy.

Considerations When Choosing a Term

When to Use a Longer Term:

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

When to Use a Shorter Term:

- The community spouse is in questionable health.
- The community spouse would not be entitled to a shift under the MMNA rules.
- The couple is concerned about estate recovery.

The goal is to choose a term you and the client are comfortable with.

Purchase the MCA

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

Single Premium	Annuity Term	Monthly Payout	Total Payout
$198,000	36 Months	$5,520	$198,720

Owner/Payee: Linda

Primary Beneficiary: The state Medicaid agency to the extent of benefits paid on behalf of John

Secondary Beneficiary: Their children

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Apply for Medicaid

- After purchasing the MCA, Linda’s income increases from $2,100 to $7,620, and the couple’s excess assets are eliminated.
- John is immediately eligible for Medicaid, and his co-pay is $2,250, which is his total income minus his Personal Needs Allowance of $50.

LINDA’S ORIGINAL INCOME:
$2,100

+

MCA INCOME:
$5,520

=

LINDA’S TOTAL INCOME:
$7,620

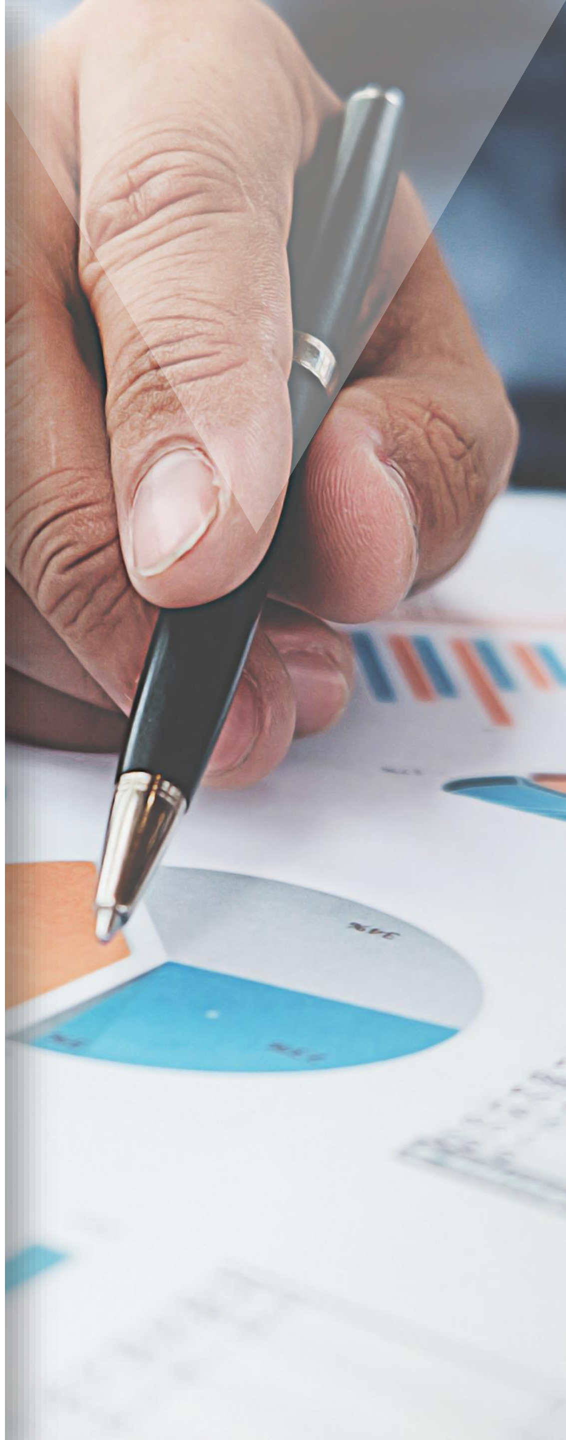
Economic Results

- John achieves immediate Medicaid eligibility. With a Medicaid co-pay of $2,250, the couple experiences a **monthly savings of $5,750** when compared to the original cost of care of $8,000.
- Linda's monthly income **increases to $7,620**, which is more than she would receive under the MMNA rules alone.
- 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

- If Linda needs 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 annuity term, the remaining funds may be recovered by the state Medicaid agency up to the amount of benefits expended on behalf of John.

Strategy for a Single Person



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Strategy for a Single Person

- Rather than fund the entire spend-down amount into an MCA, we typically recommend the **Gift/MCA Plan** for a single person.
- The client uses the divestment rules to their advantage by **intentionally divesting approximately half of their assets** and forcing a penalty period.
- The remaining assets are then used to **purchase an MCA** that will pay through the penalty period.
- The **economic benefit lies in the divestment**, which is typically a wealth transfer to a trust or their heirs.

Meet Robert

- Robert (83) is a single person with Alzheimer's disease.
- Robert's family can no longer care for him at home, so they decide to move him into a nursing home.
- He has countable assets that are preventing him from qualifying for Medicaid.

Case Facts

Robert's Income
$1,750

Total Countable Assets
$150,000

Divestment Penalty Divisor
$8,250

Robert's Cost of Care
$8,500

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What if He Does Nothing?

- Since Robert's cost of care is $8,500 per month, he risks depleting his entire life savings in as little as **17 months**.
- Should this occur, he'll have nothing left to pass on to his loved ones.

TOTAL COUNTABLE ASSETS:		COST OF CARE:		THE RESULT:
$150,000	÷	**$8,500** per month	=	**17.65** months of private pay

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Determine the Spend-Down Amount

- Robert can keep his personal effects and $2,000 as his Individual Resource Allowance.
- His resulting spend-down amount is $148,000.

TOTAL COUNTABLE ASSETS:
$150,000

-

ROBERT'S ALLOWANCE:
$2,000

=

SPEND-DOWN AMOUNT:
$148,000

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Calculate the Burn Rate

COST OF CARE:		ROBERT'S INCOME:		INCOME SHORTFALL:		DIVESTMENT PENALTY DIVISOR:		BURN RATE:
$8,500	-	$1,750	=	$6,750	+	$8,250	=	$15,000

- This means that for each month of the plan, Robert will "burn" through $15,000.
  - *Approximately $8,250 will be consumed by way of the gift.*
  - *Approximately $6,750 will be consumed by way of the MCA.*

Determine the Length of the Plan

- 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:	÷	BURN RATE:	=	LENGTH OF PLAN:
$148,000		**$15,000**		**9.87 months** **Rounded up to 10**

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Calculate the Gift Amount

LENGTH OF THE PLAN:		DIVESTMENT PENALTY DIVISOR:		TOTAL GIFT AMOUNT:
10 months	x	$8,250	=	$82,500

The gift amount of $82,500 will result in Robert being ineligible for Medicaid for 10 months.

Purchase the MCA

After Robert makes the wealth transfer, his spend-down amount of $148,000 is reduced by the gift amount of $82,500, leaving $65,500 for him to fund into the MCA.

Single Premium	Annuity Term	Monthly Payout	Total Payout
$65,500	**10 Months**	**$6,560**	**$65,600**

Owner/Payee: Robert

Primary Beneficiary: The state Medicaid agency to the extent of benefits paid on behalf of Robert

Secondary Beneficiary: His children

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Apply for Medicaid

- Robert is now considered "otherwise eligible" for benefits. After he applies for Medicaid, his penalty period begins.
- During this time, he will use his Social Security income and his MCA income to pay the nursing home bill.
- Since his cost of care is $8,500, he will have a small shortfall to pay to the nursing home each month.

ROBERT'S ORIGINAL INCOME:		MCA INCOME:		ROBERT'S NEW INCOME:
$1,750	+	**$6,560**	=	**$8,310**

Gift/MCA Plan Timeline

- Make the gift
- Purchase MCA
- Apply for Medicaid

Privately pay the nursing home bill during the penalty period

Client begins receiving Medicaid benefits

Beginning of Month 1

End of Month 10

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Economic Results

- After the 10-month plan, Robert's monthly income reverts to $1,750.
- After accounting for his $50 Personal Needs Allowance, his monthly Medicaid co-pay equals $1,700, **saving him $6,800/month** compared to his original cost of care of $8,500.
- Robert is able to make a **guaranteed wealth transfer of $82,500** to his children, which is over 50% of his spend-down amount.

Additional Considerations

- If Robert were to predecease the 10-month plan, he would not have gained or lost any economic benefit, as he would have been privately paying for his care during this time.
- If Robert's cost of care increases or he has unexpected medical expenses, his children may have to use some of the gifted funds to help cover these costs.

Questions

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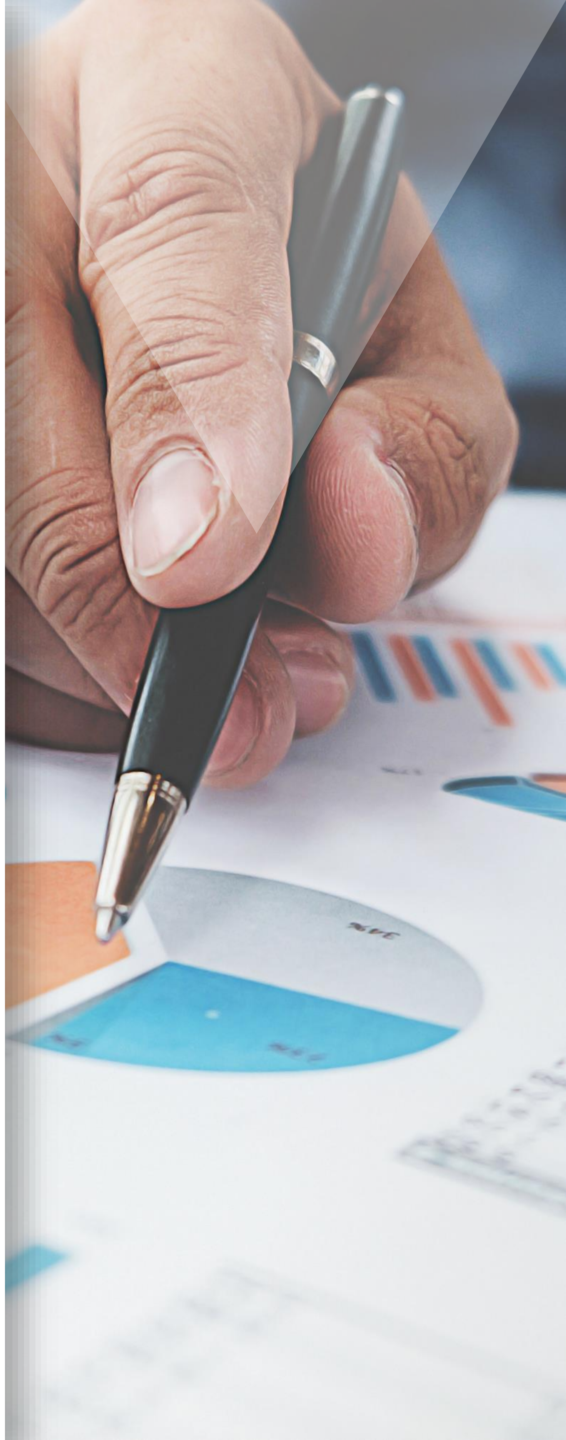

Thank you!

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