Medicaid Compliant Income Annuity Refresher; Offering Solutions to Problems
Today’s Agenda

• Rules & Procedures for offering Medicaid Compliant Annuities

• Case Study: Planning for Married Couples

• Where To Go For Help?
The FACTS:

• In the United States, **3.9%** of the population over age 65 live in a nursing home.

• Nursing home costs can run **$55,000 to $96,000** or more per year!

• Without private insurance, Medicaid is the primary source of long-term care assistance for **1 out of every 7** people in the US.

• These factors affect the majority of seniors in America, yet few have done anything about it.
How To Pay For Care?

• Deplete savings accounts

• Long Term Care Insurance

• Many Americans will end up on Medicaid for these reasons:
  • Don’t have the financial means to pay for the high expense of nursing homes
  • Can’t afford or qualify for Long Term Care (LTC)
  • Many see LTC as a “use it or lose it plan”
The Opportunity

• Medicaid Law allows the ability to rearrange assets and qualify for Medicaid - *Medicaid Qualified Annuity*

  • Omnibus Budget Reconciliation Act of 1993
    – Congress delegated the Medicaid treatment of annuities to the Secretary of Health and Human Services

  • Deficit Reduction Act of 2005 ("DRA") in February of 2006
    – *Transmittal 64*
Legislation and Rules

• In 1994 the Secretary of Health Care Financing Administration issued *Transmittal 64*.

• *Transmittal 64*: 
  • Determined “actuarially sound” test for Medicaid Compliant annuities.
  • Actuarially Sound: 
    – The actuarially sound test is easily satisfied by showing that the individual who purchased the annuity will receive back his or her entire investment within his or her Medicaid life expectancy.
    – Term certain SPIA must be no longer than the annuitant’s actuarial life expectancy.
Legislation and Rules

• Deficit Reduction Act of 2005 (DRA)
  • Actuarially sound test outlined in Transmittal 64 was continued, subject to several modifications.

• Additional requirements include:
  – Must name state Medicaid program as the primary beneficiary up to amount Medicaid has spent for care
  – Medicaid applicant must disclose their interest in the annuity
  – Income annuity must be irrevocable and non-assignable
  – Actuarially sound
  – Must provide for payments in equal amounts, with no deferral and no balloon payments
2012 Medicaid Specifications for Arizona

Protections for the Confined Spouse:

Monthly Personal Allowance: $104.70

Protections for the Community Spouse:

Community Spouse Resource: Minimum: $22,728
Allowance (CSRA): Maximum: $113,640
Increased CSRA: Permitted
Annuities: Actuarially sound annuities permitted
Monthly Maintenance Needs: Minimum: $1,839
Allowance: Maximum: $2,841
What Is A Medicaid Compliant Annuity?

• The Medicaid Compliant Annuity was designed to convert a spend-down amount into an income stream.

• With the spend-down amount eliminated, the nursing home resident/Medicaid applicant becomes eligible for Medicaid benefits.

• Essentially, a Medicaid Compliant Annuity is a period certain single premium immediate annuity with an added restrictions endorsement.
  
  • The added endorsement makes the annuity irrevocable and non assignable.
Medicaid Compliant Annuity Planning

Case Study:
Medicaid Compliant Annuity Planning for Married Couples
The Problem:

• Husband/Wife with one spouse entering nursing home and the other staying at home

• Husband/Wife have countable assets above the required amount to qualify for Medicaid

• Community Spouse reluctant to spend down assets to qualify Confined Spouse for Medicaid
  
  • *Turn assets into a non-counting income without creating a disqualifying transfer*
Case Study

- GOAL: *Obtain immediate Medicaid eligibility for the institutionalized spouse while providing the community spouse with sufficient income to maintain his or her lifestyle.*

- Mr. and Mrs. Smith are both 82 years of age.

- On June 1, 2012 Mr. Smith enters a nursing home:
  - The Smith’s own a home, one car, personal property and $250,000 in a savings account.
  - Arizona state Medicaid rules entitle Mrs. Smith to a resource allowance of $113,640.
  - Mr. Smith is entitled to retain a resource allowance of $2,841.
  - Net spend-down of **$133,519**
    
    ($250,000 - $113,640 - $2,841 = $133,519)
Case Study

• June 5, 2012 – Smith’s meet with an elder law attorney:
  • Nursing home will cost $5,000 per month.
  • Without Medicaid their money will exhaust in 27 months!
  • To qualify for Medicaid the elder law attorney recommends purchase of Medicaid Compliant Annuity.

• July 1, 2012 - Mrs. Smith invests in a $133,519 Medicaid Compliant Annuity with The Standard:
  • An 82 year old female has a 98 month life expectancy.
  • Payout months 1 – 98: $1,415.39
  • Total payout: $138,707

• Medicaid Compliant Annuity returns more than $133,519, so her annuity is deemed “actuarially sound”.
Case Study

• Monthly Savings = $3,805
  $45,660 yearly

• Mr. Smith pays:
  $1,195/mo vs. $5,000/mo

• Monthly cost calculation:
  o $5,000 nursing home cost − Mr. Smith’s Medicaid co-pay
  o Mr. Smith’s Medicaid co-pay calculation
    • Mr. Smith receives $1,300/mo in social security − $104.70 personal needs allowance
    • Co-pay is $1,195/mo ($1,300 − $104.70 personal needs allowance)

• $5,000 - $1,195 co-pay = $3,805 monthly savings
Medicaid Compliant SPIA’s

**GUIDE FOR ADVISORS**

- Look for situations where a husband/wife expect one to enter a long term care facility which provides custodial care.
- **Always** instruct clients to work with an elder care attorney.
- Work with The Standard in obtaining a proper Medicaid Compliant Annuity illustration and sales disclosures.
- Medicaid Compliant Annuity must be issued with a restricted endorsement.
  - Non-transferable · Non-forfeitable · Non-assignable · Non-commutable · Irrevocable
  - No change of payee
  - No change of payment option
  - No cash value
Medicaid Compliant SPIA’s

GUIDE FOR ADVISORS

• Application set up:
  • Owner: Healthy spouse
  • Annuitant: Healthy spouse
  • Payee: Healthy spouse
  • Primary Beneficiary: State Medicaid program up to amount Medicaid has spent for care

• Obtain signed copy of Restricted SPIA Disclosure form.
• Obtain signed copy of Contract Endorsement – Restrictions form.
• Obtain signed copy of Restricted SPIA illustration.
• Always work with a qualified elder care attorney!
Review

• Medicaid Compliant Annuities are a legally viable solution to reposition assets in order to qualify for Medicaid.

• Medicaid Compliant Annuities must be:
  • Issued on well spouse
  • Issued with a restrictive endorsement
  • Issued as a period certain payout equal to well spouse’s life expectancy
  • Issued with the primary beneficiary as the state Medicaid program

• Case Study: Planning for Married Couples

• The Standard is one of only a few carriers offering a Medicaid SPIA product option.
Where To Go For Additional Information?

- www.naela.org
  (National Academy of Elder Law Attorney’s Inc.)
- www.elderlawanswers.com
- www.medicaid-annuity.com
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