Use of Annuities in Medicaid Planning For a Singe Person

Martha, an 81 year old female, lives in the home she and her husband bought. The home is worth $300,000. In addition, she has $275,000 is total assets outside of her personal assets. She is receiving $2,000 per month in Social Security Income (SSI) and pension.

Prior to Martha facing a nursing home stay she makes a properly structure gift via a Legacy Rescue Plan™ of $100,000.

Martha gets sick and must be moved into a nursing home. Here is a scenario option to help Martha:

Martha's children choose a nursing home close to them so that they can visit her often. When asked how she is going to pay for the nursing home she displays her ability to pay with the home and other assets. This enables Martha to get into a home of choice.

Martha will have to sell her home and use the proceeds of the sale for her care.

Without alternative planning Martha would have to spend down her assets from $575,000 to $1,600 before she would qualify for Medicaid.

As opposed to this, Martha positions $500,000 into an immediate annuity that is actuarially sound. In addition, it is non-transferable, non-assignable, non-commutable, non-surrenderable, totally and permanently irrevocable, and has no cash value. In addition, the state has to be the first beneficiary. This enables Martha to use the $75,000 to private pay, get into the facility of choice and have time to apply for Medicaid benefits.

The $500,000 creates a monthly income of $4,006.17 for 102 months. In addition, Martha has $2,000 of monthly income from SSI and pension.

How does the SPIA benefit Martha?

Medicaid uses an asset-based test for single applicants. They qualify with $1,600 of assets (plus a few other items such as a pre-paid burial plan). In Martha's case we left her with $1,600 and ***converted*** the rest of her assets to income.

Medicaid does not pay at the same rate as private pay for a nursing home. For example, in 2009 at one home in Madison, CT the private pay rate is $312 per day or $9,490 per year. Medicaid pays $190.55 per day or $5,796 per month. Why is this important?

If Martha has a total income of $6,006.17 per month of income all of it would be assigned to the state. This would satisfy the amount that Medicaid pays. Why is this important?

Let’s do the math. If Martha were to stay in the nursing home for 24 months, she would have private paid $227,760. However, as a result of taking advantage of the Medicaid rate the total paid is $144,149. This is a total savings of $83,611.

At Martha’s death there is a monthly income balance of 78 months at $4,006.17 or $312,481.26 out of the original $400,000. If she did not used this annuity planning strategy her family would have been left with $172,240. A difference of $140,241.26.

The bottom line is, by using proper planning tools, significant assets can be sheltered from the cost of the nursing home.

Would your clients rather give their hard-earned money to the nursing home or to their loved ones?

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