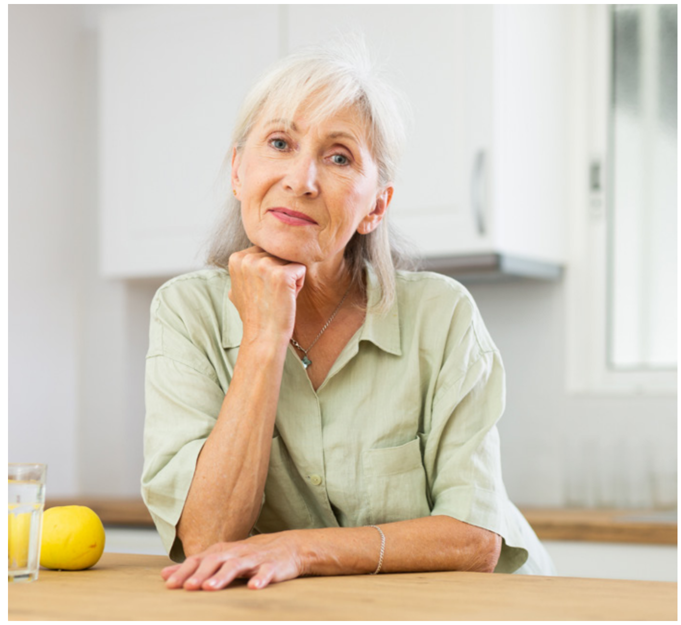
Planning for a Single Person

Gift/MCA Plan

MEET RHONDA (82)

After being diagnosed with dementia, Rhonda enters a nursing home. In order to avoid losing her life savings paying the nursing home bill, she wants to gift some of her wealth to her children and seek Medicaid benefits. She turns to a local financial advisor for help.



CASE FACTS

RHONDA'S INCOME $2,200	**ASSETS** $172,000
DIVESTMENT PENALTY DIVISOR $8,500	**COST OF CARE** $9,700

GOAL

Obtain Medicaid eligibility for Rhonda as quickly as possible while preserving her assets and creating a wealth transfer to her intended heirs.

SOLUTION:

Rhonda gifts a portion of her countable assets to her children and purchases a Medicaid Compliant Annuity with her remaining assets. She uses the MCA payments to help pay for her care during her penalty period, after which she will become eligible for Medicaid benefits.

1 DETERMINE THE SPEND-DOWN AMOUNT

Rhonda is allowed to keep $2,000 in countable assets as her Individual Resource Allowance, and she decides to purchase a funeral expense trust of $12,000. This leaves $158,000 for her to spend down.

Countable Assets:	$172,000
Rhonda's Allowance:	– $2,200
Funeral Expense Trust:	– $12,000
Spend-Down Amount:	**$158,000**

2 IMPLEMENT THE ANNUITY PLAN

For the plan to work effectively, Rhonda's MCA term must run congruently with the penalty period caused by the gift to her children. Using a proprietary formula outlined to the right, start by calculating the burn rate—the amount Rhonda will burn through during each month of the plan—then, the plan length. The length of the plan is rounded up to the nearest whole number—10 months.

To determine the gift amount, the length of the plan is multiplied by the Divestment Penalty Divisor for a total gift of $85,000. The gift is then subtracted from the spend-down amount to determine the single premium amount funded into the MCA, which is $73,000.

Cost of Care:	$9,700
Rhonda's Income:	– $2,200
Rhonda's Shortfall:	$7,500
Divestment Penalty Divisor:	+ $8,500
Burn Rate:	**$16,000**
Spend-Down Amount:	$158,000
Burn Rate:	÷ $16,000
Length of Plan:	9.88 Mo
Round Up:	**10 Mo.**
Length of Plan:	10 Mo.
Divestment Penalty Divisor:	x $8,500
Gift Amount:	**$85,000**

3 APPLY FOR MEDICAID

After making the wealth transfer to her children, Rhonda purchases the MCA and applies for Medicaid. The MCA will pay Rhonda $7,310 per month for 10 months, which increases her total monthly income to $9,510. During her 10-month penalty period, Rhonda uses her increased monthly income to pay the nursing home bill. She will have an income shortfall of $190 per month, which she can pay using either her resource allowance or with some help from her children.

Single Premium	**Period Certain**
$73,000	10 Months
Monthly Payout	**Total Payout**
$7,310	$73,100

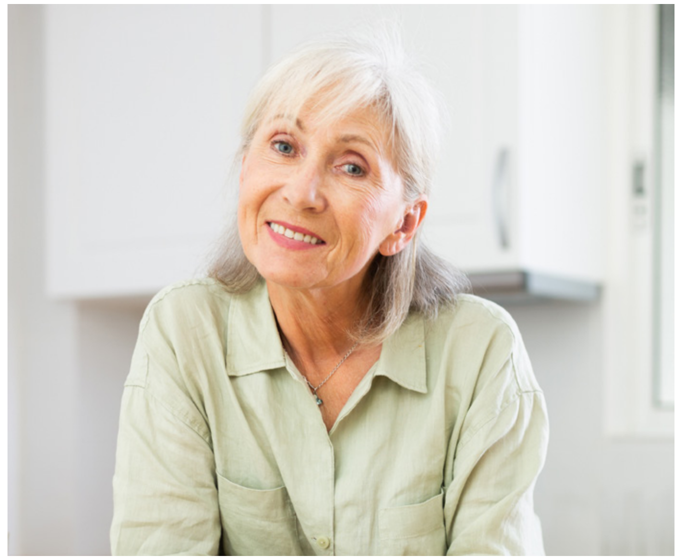
ECONOMIC RESULTS

Beginning in month 11, Rhonda will be eligible for Medicaid benefits.

Her monthly Medicaid co-pay will be $2,150, which equals her income minus her Personal Needs Allowance of $50.

Rhonda makes a wealth transfer of $85,000 to her children, which is more than 50% of her spend-down amount.

If Rhonda chose not to proceed with the plan, she would exhaust her entire spend-down amount in about 16 months.



ADDITIONAL CONSIDERATIONS

If Rhonda predeceases the 10-month plan, she will not have gained any economic benefit.

If Rhonda's cost of care increases or she has unexpected medical expenses during the penalty period, her children may have to use some of the gifted funds to help pay for her care.

PLANNING TIP

Remember, the client's income cannot exceed their cost of care when using this strategy. When structuring the Gift/MCA plan, always leave a shortfall of about $200 to ensure the client is well below their income threshold.

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