Planning for a Single Person

Standalone Plan

MEET FRANKLIN (82)

Franklin's health is quickly deteriorating, so he must enter a nursing home. Rather than lose his life savings paying the monthly bill, Franklin wants an opportunity to pass along an inheritance to his children. He turns to a local elder law attorney for help.

CASE FACTS

Franklin's Income $1,900	Assets $230,000
Medicaid Rate $6,000	Cost of Care $8,500

GOAL

Obtain immediate Medicaid eligibility for Franklin while preserving his assets and creating a wealth transfer to his intended heirs.

SOLUTION:

Franklin purchases a Medicaid Compliant Annuity to spend down his excess countable assets and gain immediate Medicaid eligibility. Rather than pay the private pay rate of the care facility, Franklin will be responsible for covering the Medicaid Reimbursement Rate, which the state Medicaid agency can recover upon his passing. His remaining assets will then be left for his children.

1 Determine the Spend-Down Amount

Franklin is allowed to keep $2,000 in countable assets as his Individual Resource Allowance. After subtracting his allowance from his total assets of $230,000, Franklin must spend down $228,000.

Countable Assets:	$230,000
Franklin's Allowance:	– $2,000
Spend-Down Amount:	**$228,000**

2 Implement the Annuity Plan

Franklin funds his spend-down amount of $228,000 into a Medicaid Compliant Annuity, converting his excess assets into an income stream. To minimize the monthly payout, the annuity term is structured using Franklin's full life expectancy. At 82 years old, his Medicaid life expectancy is 6.77 years, or 81.24 months, rounded down to 81 months.

Single Premium	Period Certain
$228,000	81 Months
Monthly Payout	**Total Payout**
$2,840	$230,040

3 Apply for Medicaid

Franklin is immediately eligible for Medicaid benefits, and his total income increases to $4,740. After subtracting his Personal Needs Allowance of $50, his monthly Medicaid co-pay is $4,690. Since the Medicaid Reimbursement Rate at the facility is $6,000, Medicaid is expending the difference of $1,310 on Franklin each month.

Franklin passes away after 12 months. The state Medicaid agency, as primary beneficiary, can recover $15,720, which equals the total amount of benefits paid on Franklin's behalf. After subtracting Medicaid's claim and the $34,080 in total annuity payments from the MCA investment, the resulting figure of $178,200 is available for Franklin's contingent beneficiaries—his children.

Franklin's Income:	$1,900
MCA Income:	+ $2,840
Franklin's New Income:	$4,740
Personal Needs Allowance:	– $50
Franklin's Medicaid Co-Pay:	**$4,690**
Medicaid Reimbursement Rate:	$6,000
Medicaid Co-Pay:	– $4,690
Monthly Difference: (Paid by Medicaid)	**$1,310**
MCA Investment:	$228,000
Medicaid's Claim: ($1,310 x 12)	– $15,720
MCA Payments Made: ($2,840 x 12)	– $34,080
Residual Balance for Children:	**$178,200**

ECONOMIC RESULTS

After becoming eligible for Medicaid, Franklin saves $2,500 per month on care costs. This reflects the difference between the private pay rate of $8,500 and the Medicaid reimbursement rate of $6,000.

After residing in the nursing home for 12 months, Franklin makes a wealth transfer of $178,200 upon his passing, which is more than 75% of his spend-down amount.

If Franklin had done nothing, he would have exhausted his entire spend-down amount in less than 27 months.

Additional Considerations

If Franklin lives longer than 55 months, the state Medicaid agency's claim will exceed any residual balance in the annuity.

If Franklin's longevity was questionable, his attorney may have opted to proceed with the Gift/MCA Plan instead, since that strategy creates a guaranteed and immediate wealth transfer.

PLANNING TIP

The economic benefit of the Standalone Plan depends on the individual's lifespan. The longer they live, the more is due to the state Medicaid agency and the fewer residual benefits are available for the contingent beneficiary. Therefore, make sure your client understands the success of this strategy cannot be guaranteed.

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