Planning for a Married Couple

"Name on the Check Rule"

MEET JEFF (79) AND DEANNE (78)

Jeff has been diagnosed with Parkinson's and must enter a nursing home. His wife Deanne is worried the monthly bill will quickly deplete their life savings, and they may face significant tax consequences if Jeff liquidates his $150,000 IRA, so she seeks a local elder law attorney for help.

CASE FACTS

Jeff's Income $2,500	Assets $430,000
Deanne's Income $2,000	Cost of Care $9,000

GOAL

Obtain immediate Medicaid eligibility for Jeff while avoiding the large tax consequences of liquidating his IRA and ensuring Deanne has enough income to live comfortably at home.

SOLUTION:

Jeff and Deanne purchase separate Medicaid Compliant Annuities to spend down their excess countable assets and accelerate Jeff's eligibility for Medicaid benefits. Using the "Name on the Check Rule," all MCA payments will be made payable to Deanne to maintain her lifestyle in the community.

1 Determine the Spend-Down Amount

Deanne can keep up to half the couple's countable assets, not to exceed the maximum Community Spouse Resource Allowance (CSRA) of $154,140. To avoid the edge of eligibility, she will keep $150,000, and Jeff will keep $2,000 as his Individual Resource Allowance, so they must spend down $278,000.

Countable Assets:	$430,000
Deanne's CSRA:	– $150,000
Jeff's Allowance:	– $2,000
Spend-Down Amount:	**$278,000**

2 Implement the Annuity Plan

The couple purchases two annuities. First, Jeff funds his IRA of $150,000 into a tax-qualified MCA owned by him but made payable to Deanne using the "Name on the Check Rule." At age 79, Jeff's IRA-MCA is structured using his full life expectancy of 8.25 years or 99 months. Next, Deanne funds the remaining spend-down amount of $128,000 into a non-qualified MCA owned by and made payable to her. Deanne and her attorney agree to utilize a 60-month term.

	Single Premium	Period Certain	Monthly Payout	Total Payout
JEFF	$150,000	99 Months	$1,530	$151,470
DEANNE	$128,000	60 Months	$2,145	$128,700

3 Apply For Medicaid

After they purchase the MCAs and eliminate their excess countable assets, Jeff is immediately eligible for Medicaid. With the MCA payments, Deanne's total monthly income increases to $5,675. This amount exceeds her Monthly Maintenance Needs Allowance (MMNA) of $3,853.50, so she does not receive an income shift from Jeff. Jeff's monthly Medicaid co-pay is $2,450, which equals his income of $2,500 minus his Personal Needs Allowance of $50.

Deanne's Income:	$2,000
MCA Income:	+ $3,675
Deanne's New Income:	**$5,675**

Jeff's Income:	$2,500
Personal Needs Allowance:	– $50
Jeff's Medicaid Co-Pay:	**$2,450**

ECONOMIC RESULTS

Since Jeff's Medicaid co-pay is only $2,450, the couple saves $6,550 per month compared to his original cost of care.

Deanne's monthly income increases from $2,000 to $5,675.

Using the "Name on the Check Rule" to make the MCA payments payable to Deanne saves Jeff from incurring the tax consequences of liquidating his IRA while also preventing the MCA payments from being part of his monthly Medicaid co-pay.

If the couple chose not to proceed with the plan, they would exhaust their entire spend-down amount in about 30 months.

Additional Considerations

If Deanne predeceases her MCA term, the remaining balance will be subject to recovery by the state Medicaid agency. If she predeceases Jeff's MCA, the payments will revert to him, thus increasing his Medicaid co-pay.

If Deanne predeceases Jeff and Jeff predeceases his annuity term, the state Medicaid agency will be eligible to recover the remaining benefits from the MCA as contingent beneficiary.

PLANNING TIP

Plan conservatively when considering the "Name on the Check Rule." Always structure the IRA-MCA using the institutionalized spouse's full Medicaid life expectancy. Also, be sure to check with our office on how the strategy has been treated in your state before proceeding with your first case.

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