

# Medicaid Planning Opportunities Following Deficit Reduction Act of 2005

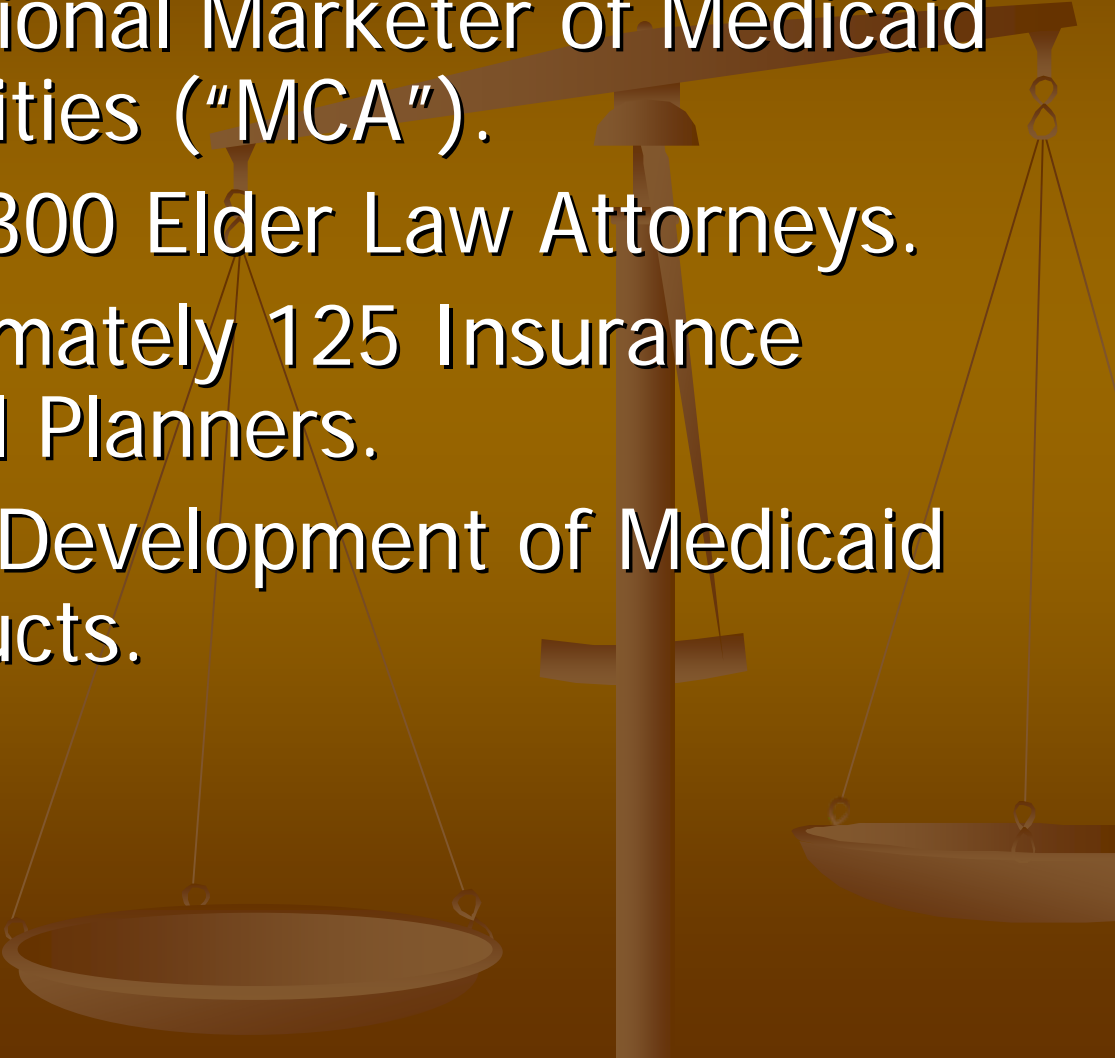
**PRESENTED TO:**  
**Illinois Association of  
Attorney-Certified Public Accountants**

**Chicago, IL  
September 21, 2007**

**PRESENTED BY:**  
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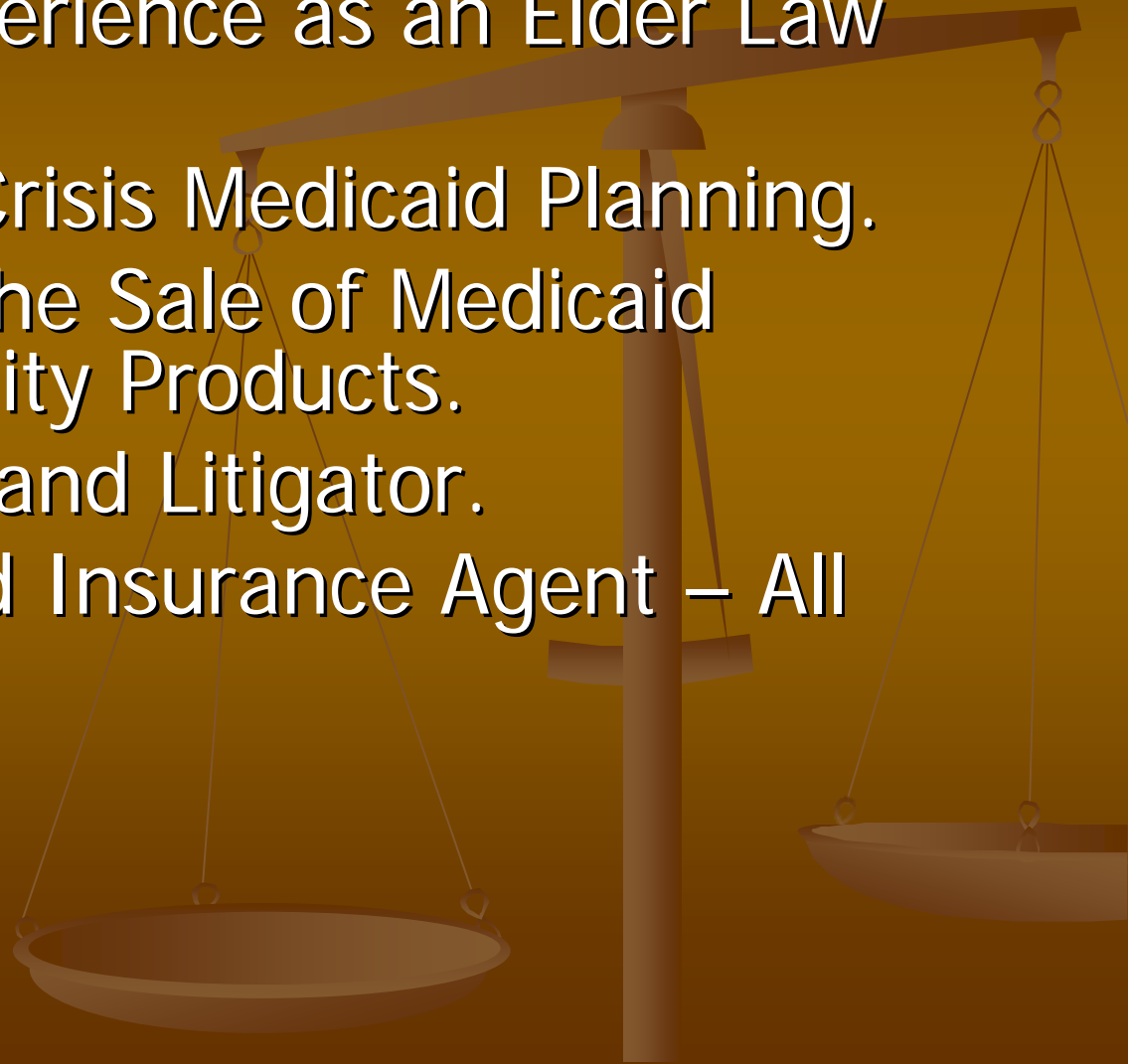
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# Who Is Krause Financial Services?

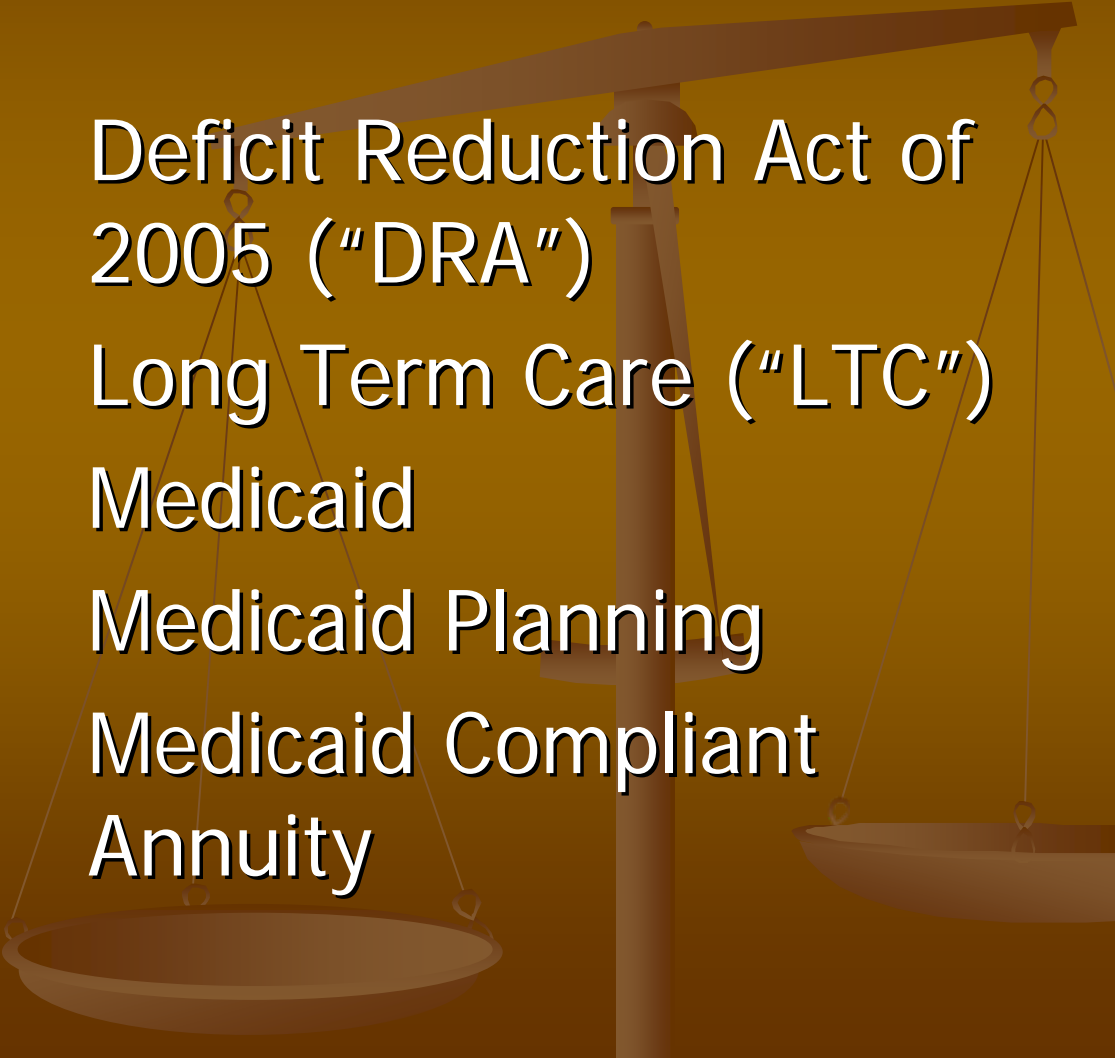
- The Largest National Marketer of Medicaid Compliant Annuities (“MCA”).
  - Serving Over 5,300 Elder Law Attorneys.
  - Serving Approximately 125 Insurance Agents/Financial Planners.
  - A Leader in the Development of Medicaid Compliant Products.
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# Who Is Dale M. Krause?

- 22 Years of Experience as an Elder Law Attorney.
- Specializing in Crisis Medicaid Planning.
- Specializing in the Sale of Medicaid Compliant Annuity Products.
- Expert Witness and Litigator.
- Stockbroker and Insurance Agent – All States.

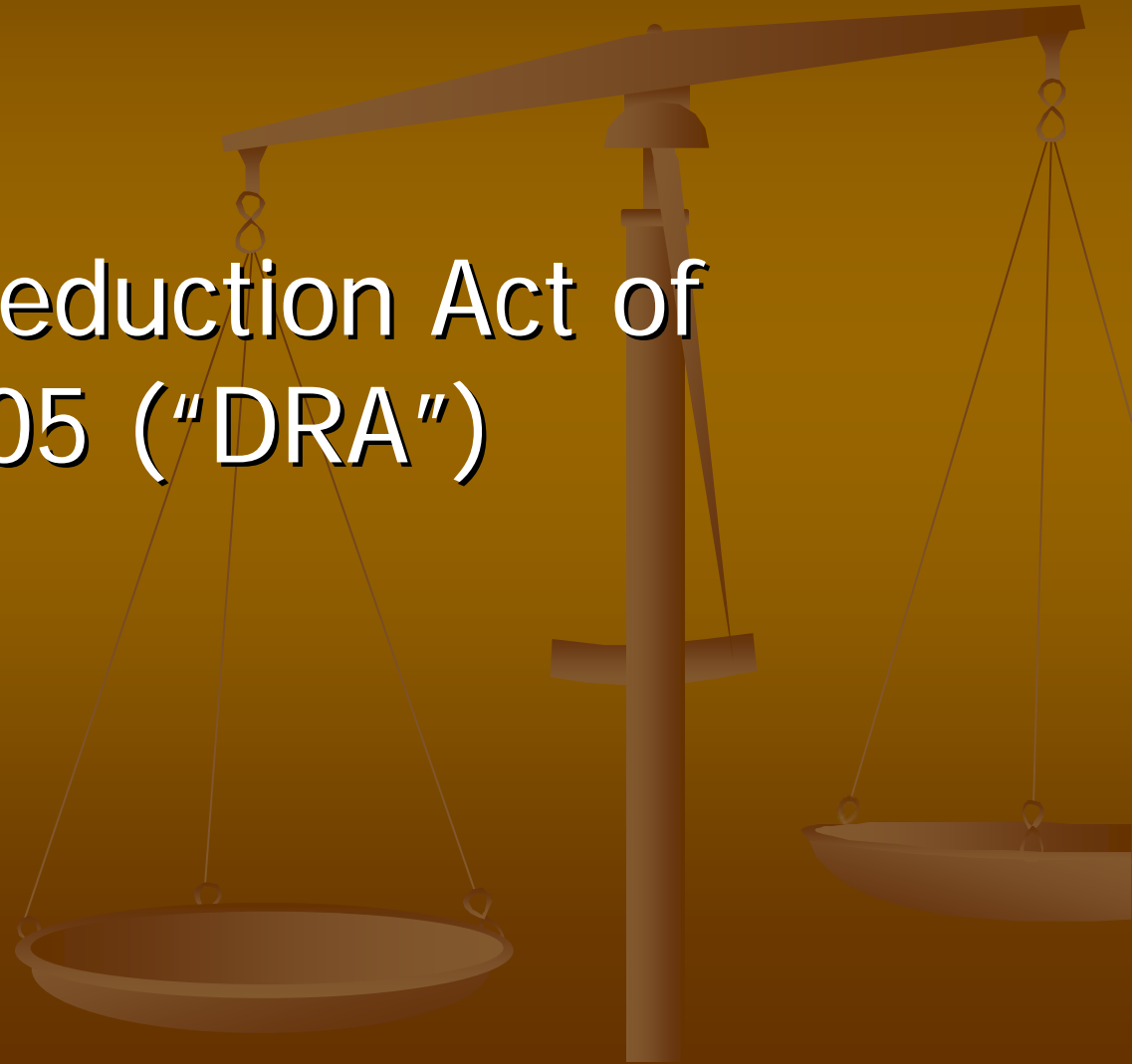


# This Medicaid Planning slideshow is presented in the following order:

- Part One: Deficit Reduction Act of 2005 ("DRA")
  - Part Two: Long Term Care ("LTC")
  - Part Three: Medicaid
  - Part Four: Medicaid Planning
  - Part Five: Medicaid Compliant Annuity
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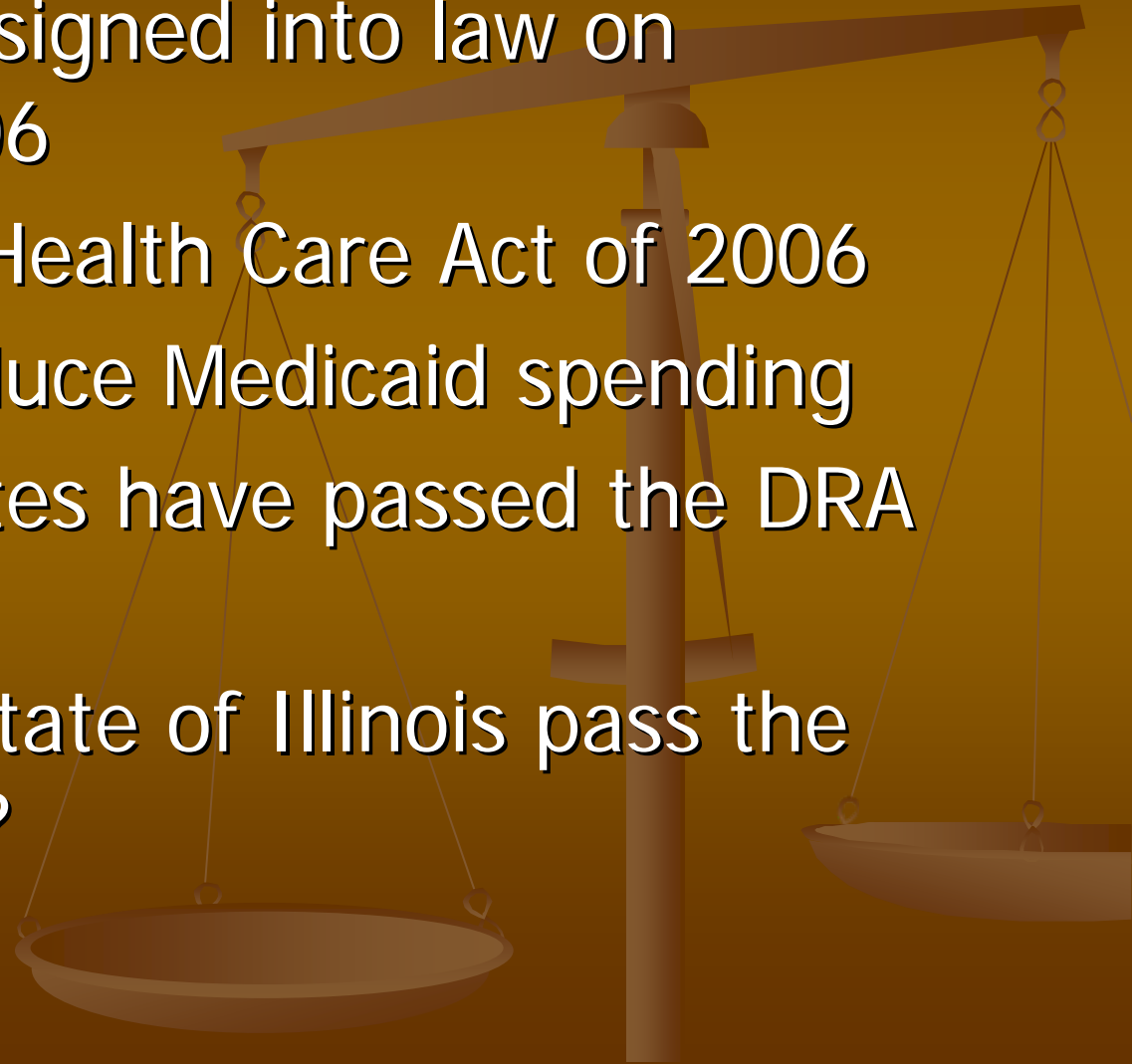
# Part One

Deficit Reduction Act of  
2005 ("DRA")

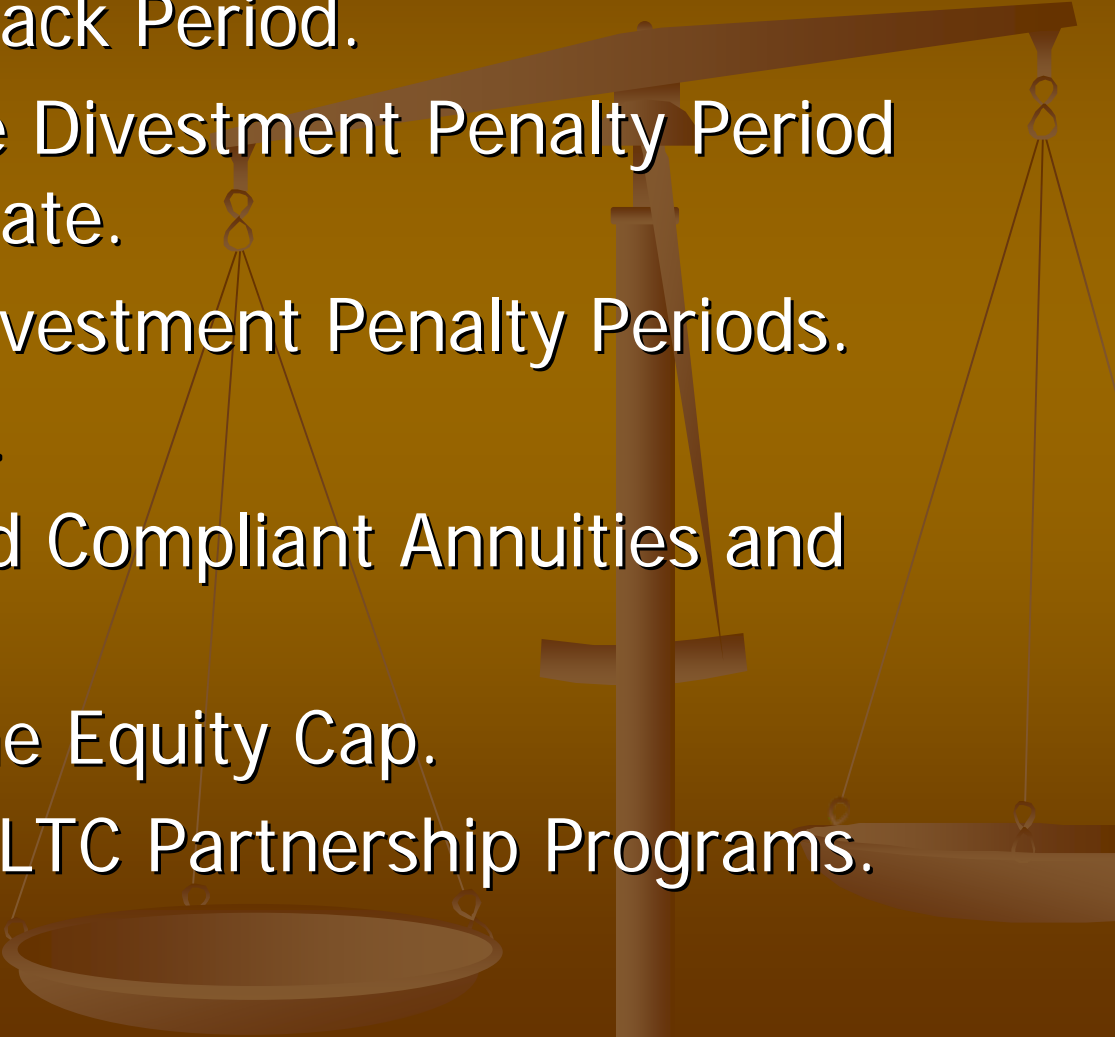


# Deficit Reduction Act of 2005

- President Bush signed into law on February 8, 2006
- Tax Relief and Health Care Act of 2006
- Designed to reduce Medicaid spending
- To date, 30 states have passed the DRA provisions
- When will the State of Illinois pass the DRA provisions?



# Major Provisions of DRA

- Lengthened Lookback Period.
  - Re-determined the Divestment Penalty Period Commencement Date.
  - Imposed Partial Divestment Penalty Periods.
  - Pooled Small Gifts.
  - Reformed Medicaid Compliant Annuities and Notes.
  - Established a Home Equity Cap.
  - Encouraged State LTC Partnership Programs.
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# Lengthened Lookback Period – What Is It?

Old Rule: 3 Years – Direct Gifts  
5 years – Irrevocable Trusts

New Rule: 5 Years – All Gifts





# Penalty Period Commencement Re-Determination-What Is It?

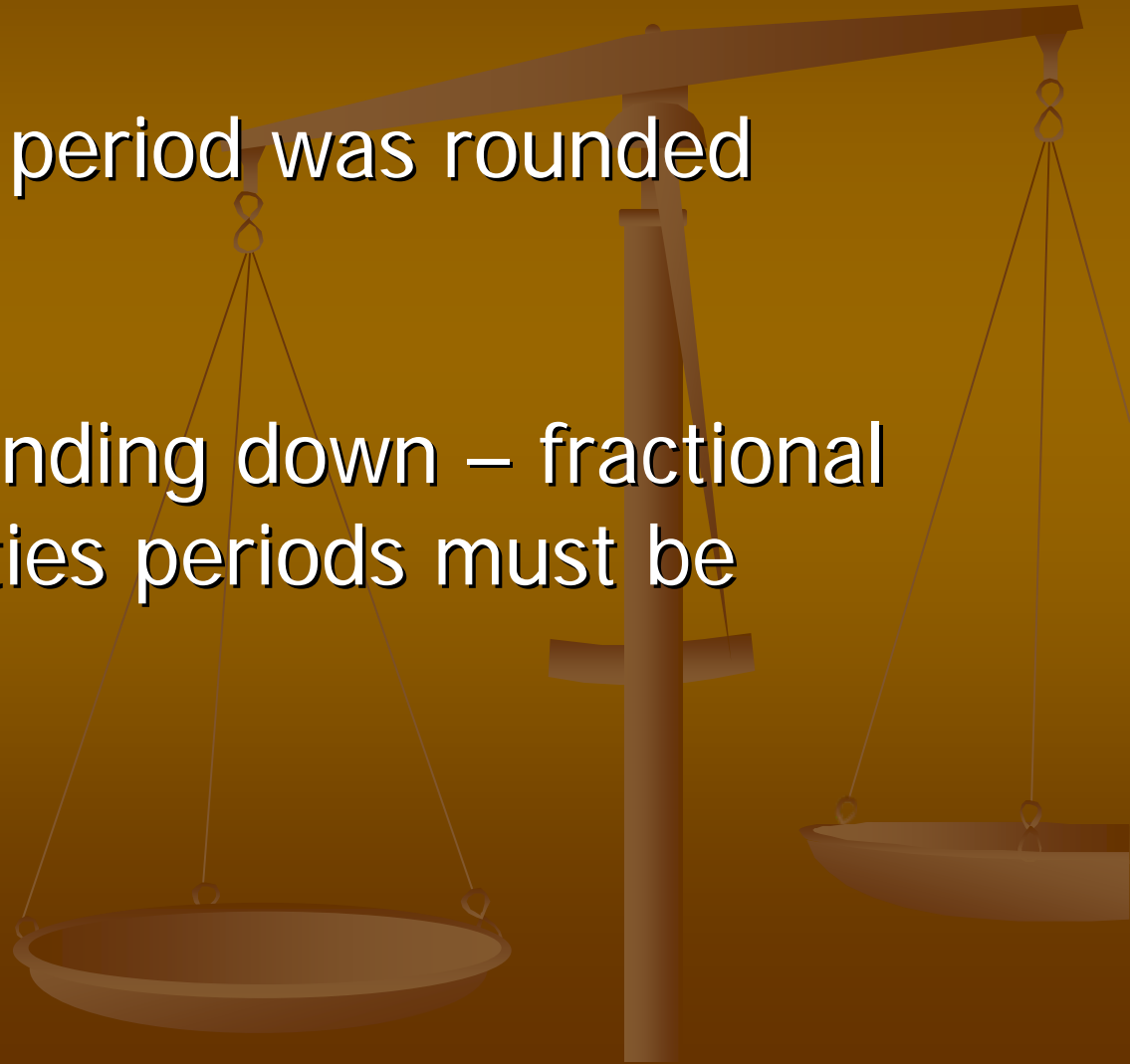
Old Rule: Penalty period commences in the month of gift.

New Rule: Penalty period does not commence until the individual is otherwise eligible for Medicaid benefits.

# Imposition Of Partial Penalty Periods

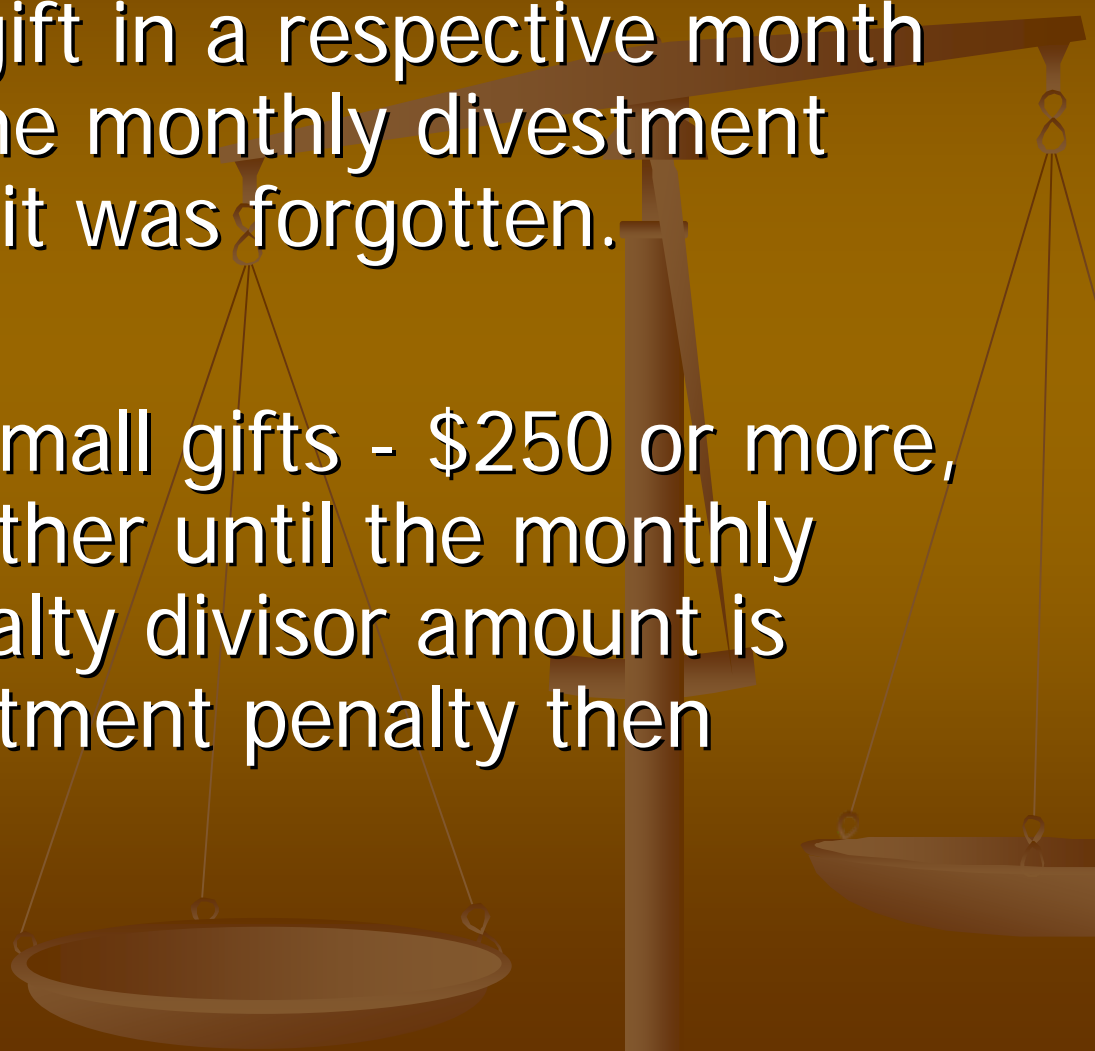
Old Rule: Penalty period was rounded down.

New Rule: No rounding down – fractional divestment penalties periods must be assessed.





# Pooling Of Small Gifts

- Old Rule: If a gift in a respective month was less than the monthly divestment penalty divisor, it was forgotten.
  - New Rule: All small gifts - \$250 or more, are pooled together until the monthly divestment penalty divisor amount is reached – divestment penalty then imposed.
- 



# MCA and Note Reform

Old Rule: Actuarially sound, irrevocable, no cash value, and any beneficiary – children.

New Rule: Actuarially sound, irrevocable, no cash value, and the primary beneficiary must be the State Medicaid Program up to the amount of medical assistance provided to institutionalized individual. Notes cannot contain self-canceling language.



# Home Equity Cap – What Is It?

Old Rule: No cap.

New Rule: \$500,000 cap (individuals only)

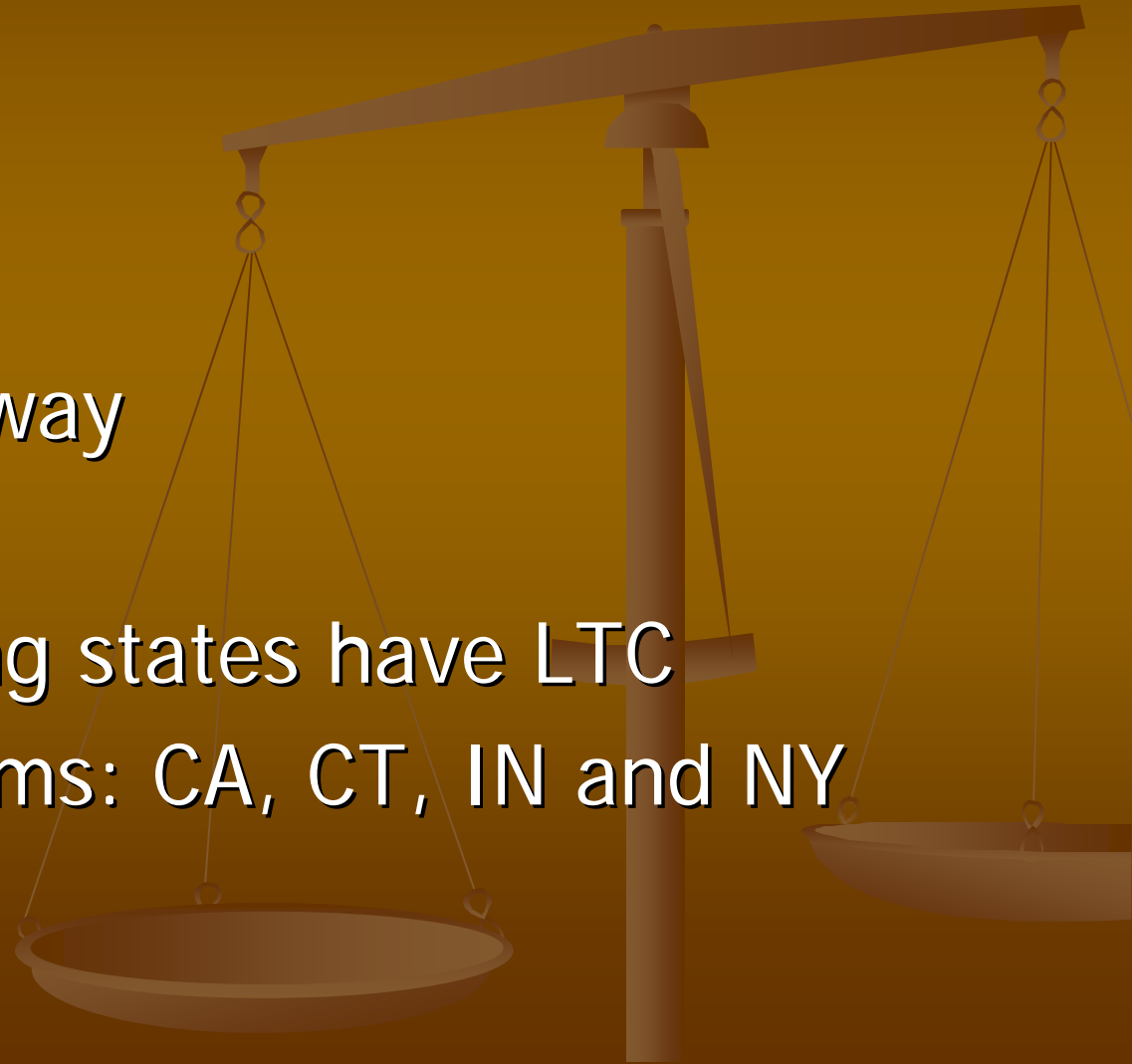


# State LTC Partnership Program – What Is It?

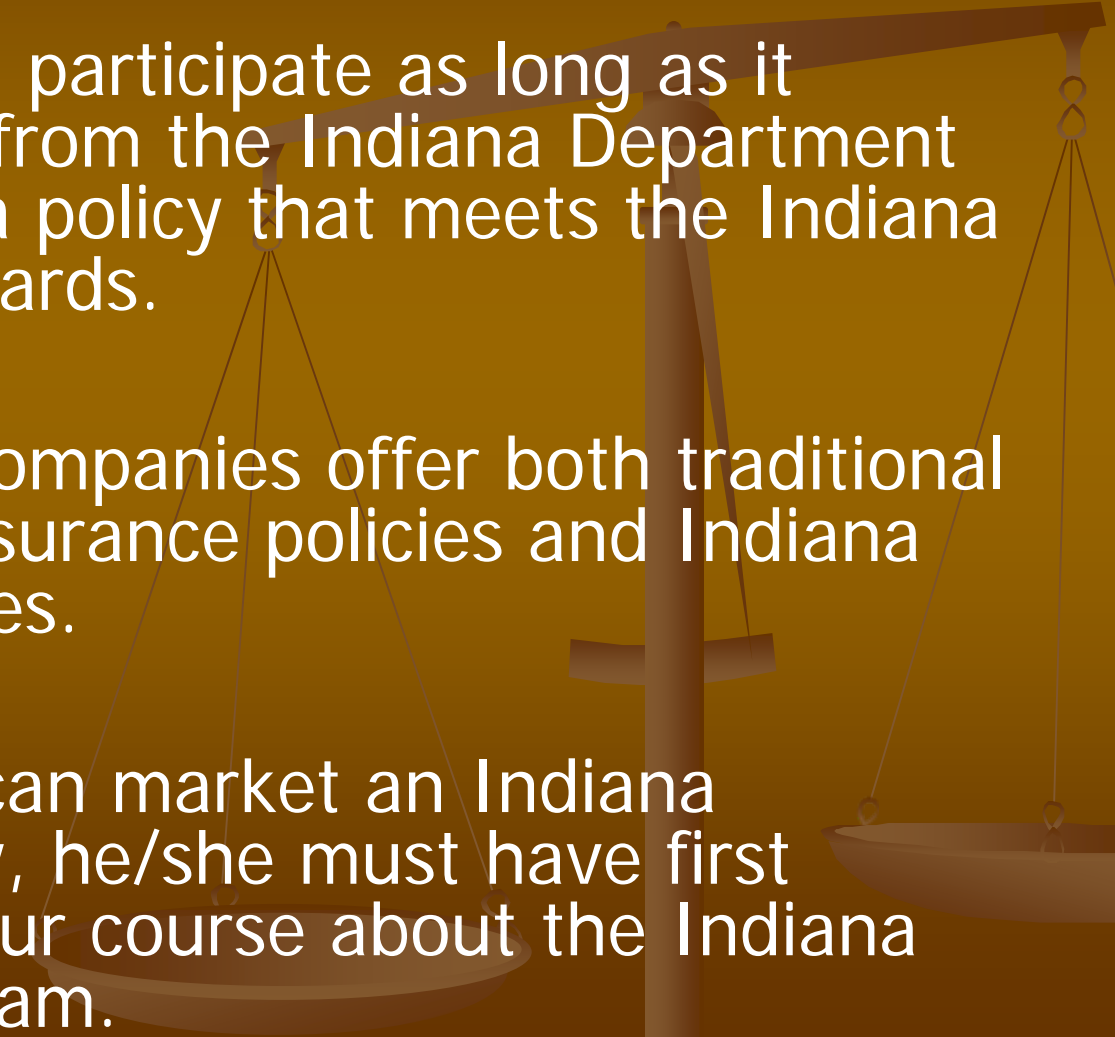
Old Rule: None

New Rule: On its way

Note: The following states have LTC  
Partnership Programs: CA, CT, IN and NY



# Indiana Partnership Companies and Agents

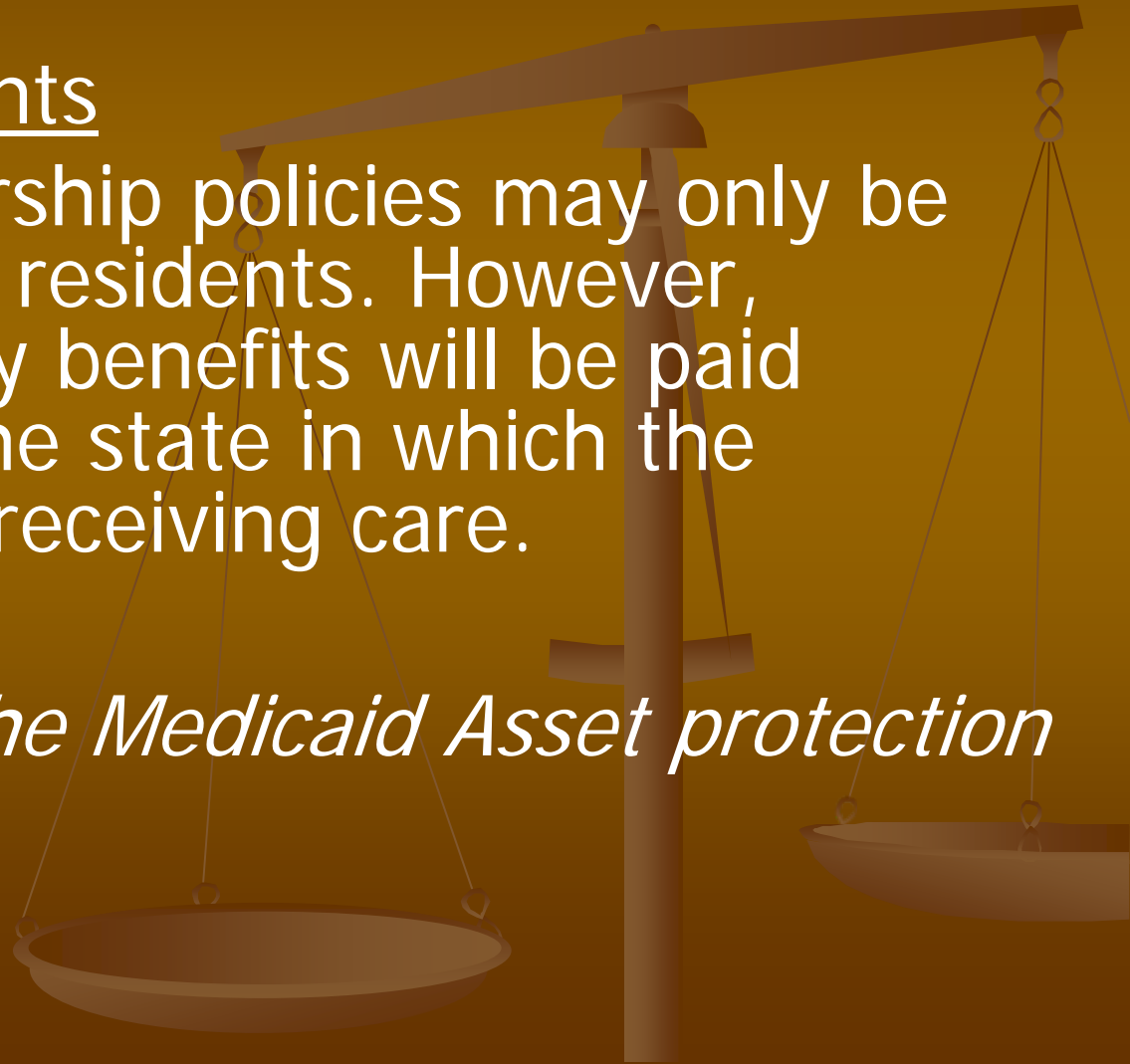
- Any company can participate as long as it obtains approval from the Indiana Department of Insurance for a policy that meets the Indiana Partnership standards.
  - All participating companies offer both traditional long term care insurance policies and Indiana Partnership policies.
  - Before an agent can market an Indiana Partnership policy, he/she must have first completed a 7-hour course about the Indiana Partnership Program.
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# Other Partnership Policy Features

- Indiana Residents

Indiana Partnership policies may only be sold to Indiana residents. However, insurance policy benefits will be paid regardless of the state in which the policyholder is receiving care.

*The exception is the Medicaid Asset protection feature.*



# Indiana Partnership Statistics (Through August, 2006)

## ■ Sales

- 45,464 applications received
- 38,490 policies purchased
- 31,750 policies in force

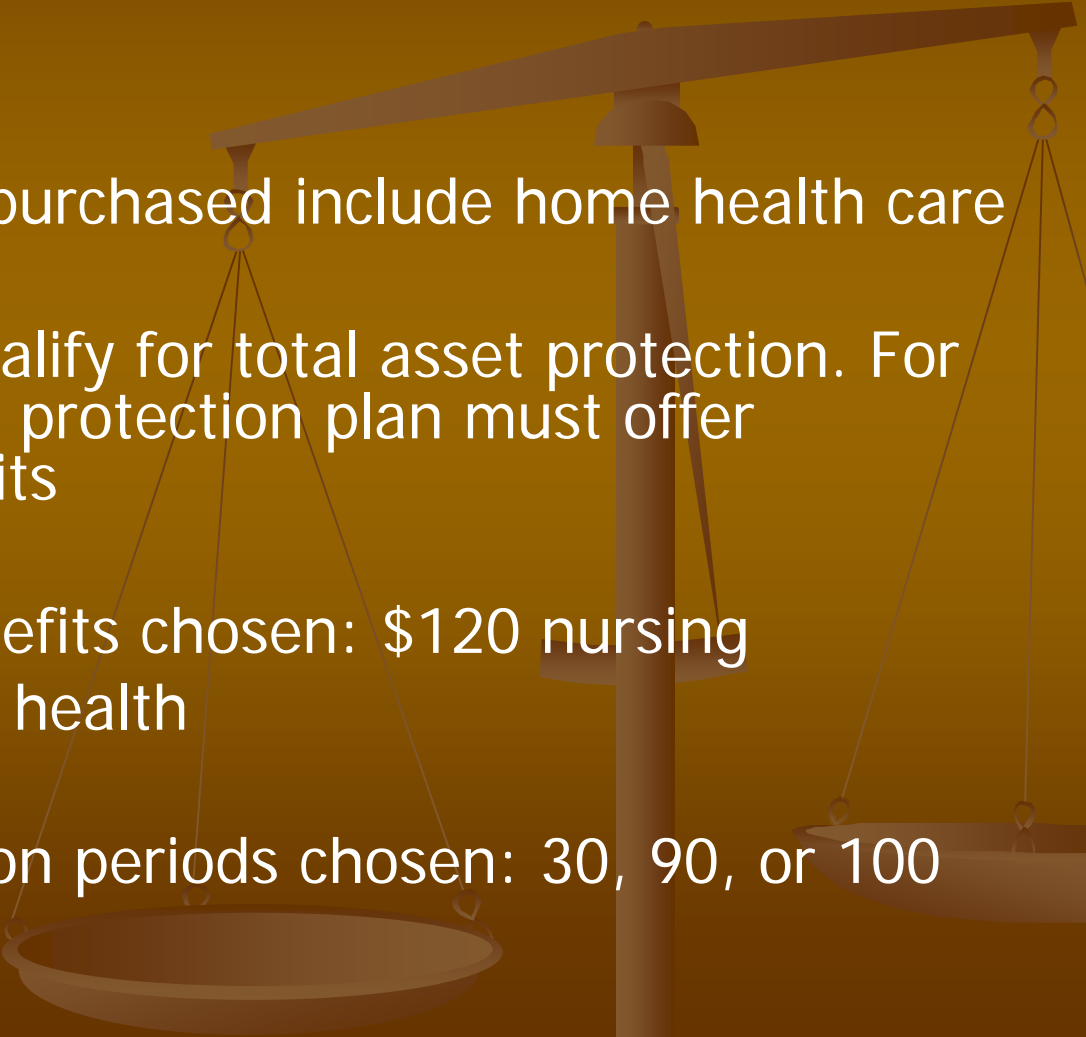
## ■ Purchasers

- 56.9% female
- 77.9% married
- 94.5% first time buyer
- Average age: 61
- Age range: 18 - 89



# Indiana Partnership Statistics

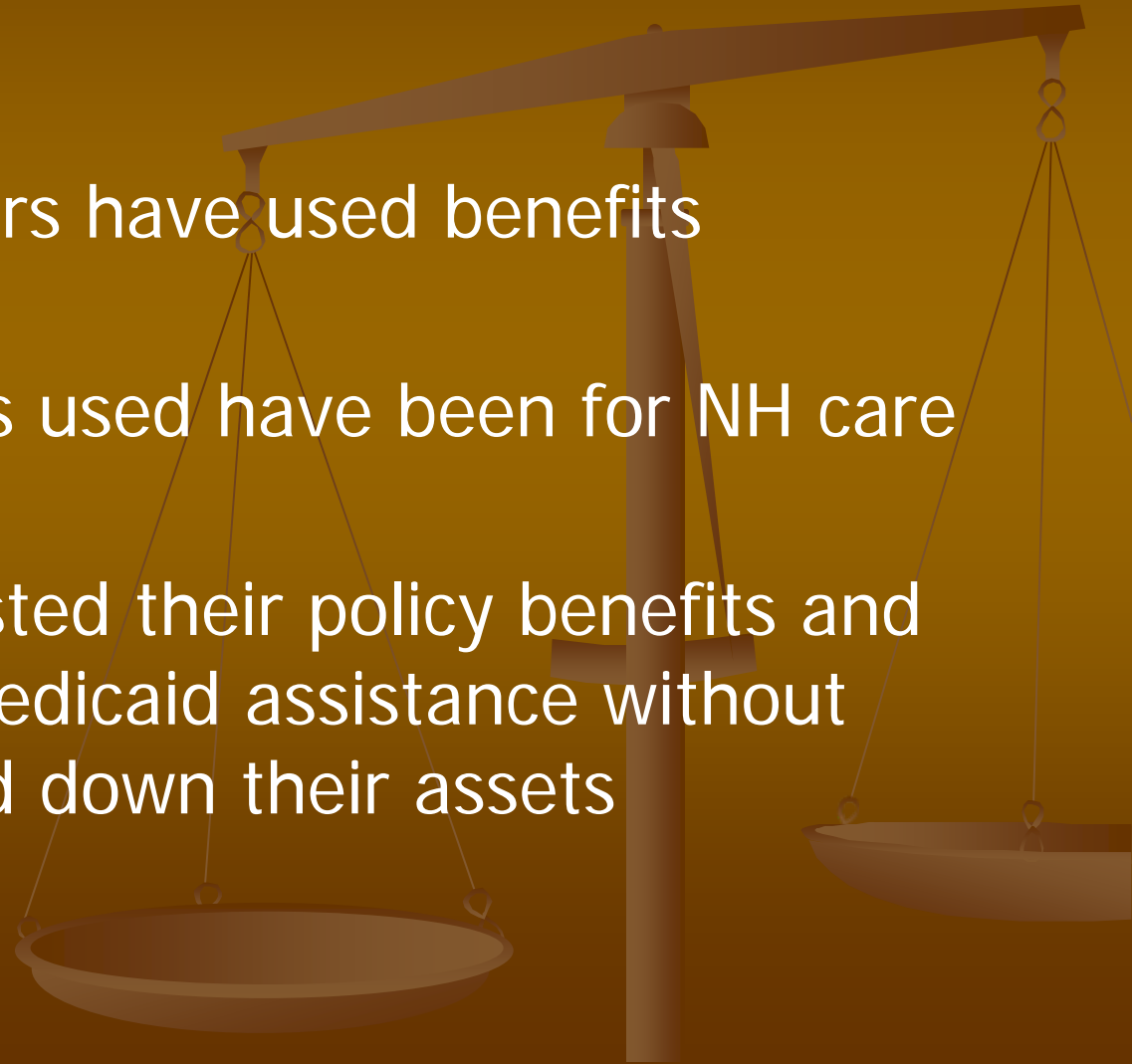
## Policy Features

- 88.8% of policies purchased include home health care
  - 84% of policies qualify for total asset protection. For 2007, a total asset protection plan must offer \$217,186 of benefits
  - Common daily benefits chosen: \$120 nursing home; \$120 home health
  - Common elimination periods chosen: 30, 90, or 100 days
- 

# Indiana Partnership Statistics

## Benefits Used

- 366 policyholders have used benefits
- 53% of benefits used have been for NH care
- 22 have exhausted their policy benefits and are receiving Medicaid assistance without having to spend down their assets



# Effect of DRA Provisions



In those states that have passed the DRA Provisions, Krause Financial Services has experienced an increase in it's business.

- In an individual case – no balloon style MCA's; half-a-loaf planning
- In a community spouse case – business as usual; shorter term MCA's

# Part Two

Long Term Care ("LTC")



# What Is LTC?



LTC is generally defined as “custodial care”, and is expected to be provided for an individual’s remaining lifetime.

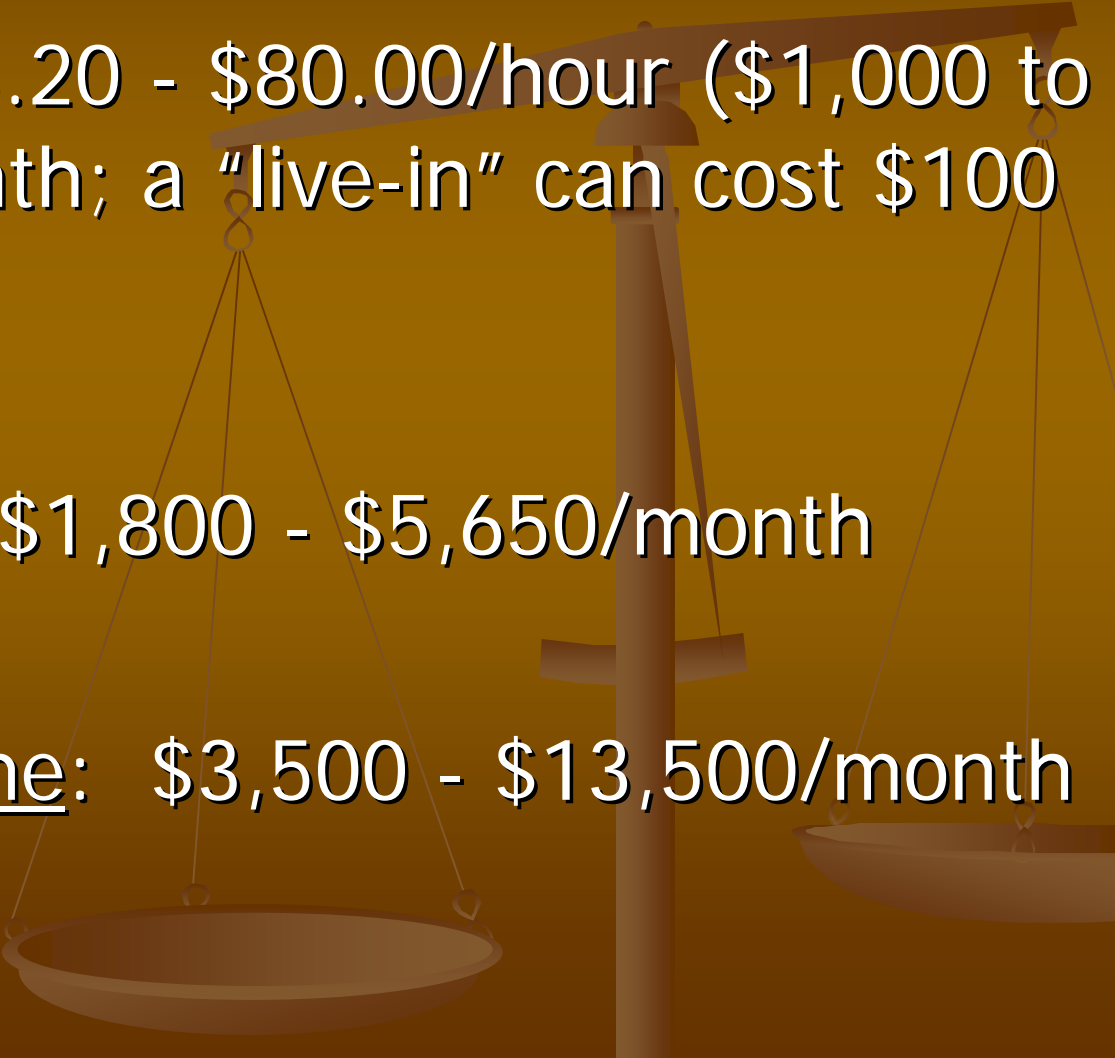
Custodial care generally includes: help with activities of daily living: eating, bathing, dressing, toileting and transferring.

# Who Provides LTC?

- Home Health Care Agency
- Assisted Living Facilities
- Nursing Homes



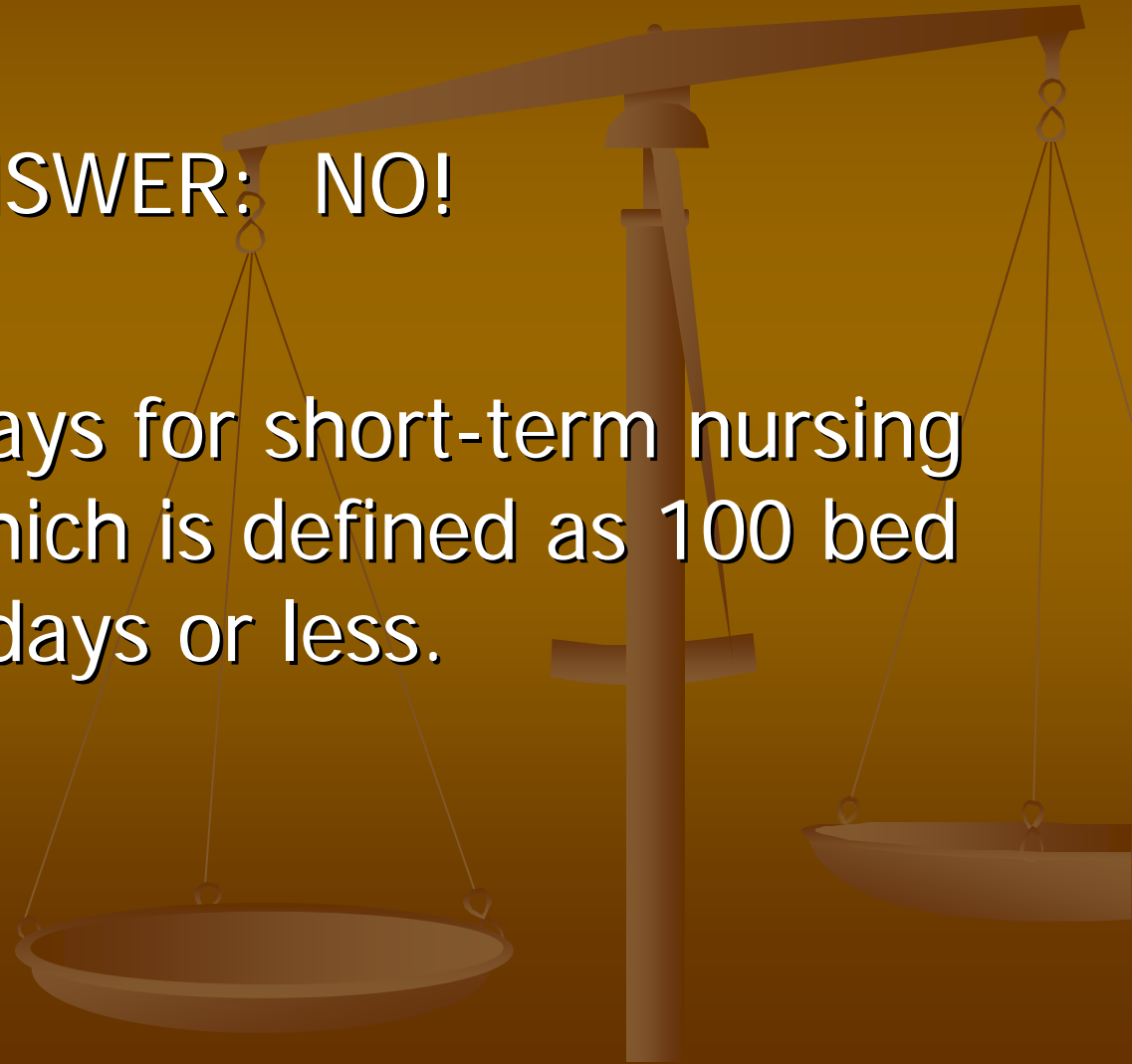
# What Does LTC Cost?

- Home Care: \$13.20 - \$80.00/hour (\$1,000 to \$13,000 per month; a "live-in" can cost \$100 - \$300/day)
  - Assisted Living: \$1,800 - \$5,650/month
  - LTC Nursing Home: \$3,500 - \$13,500/month
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# Misconception: Medicare Pays For LTC

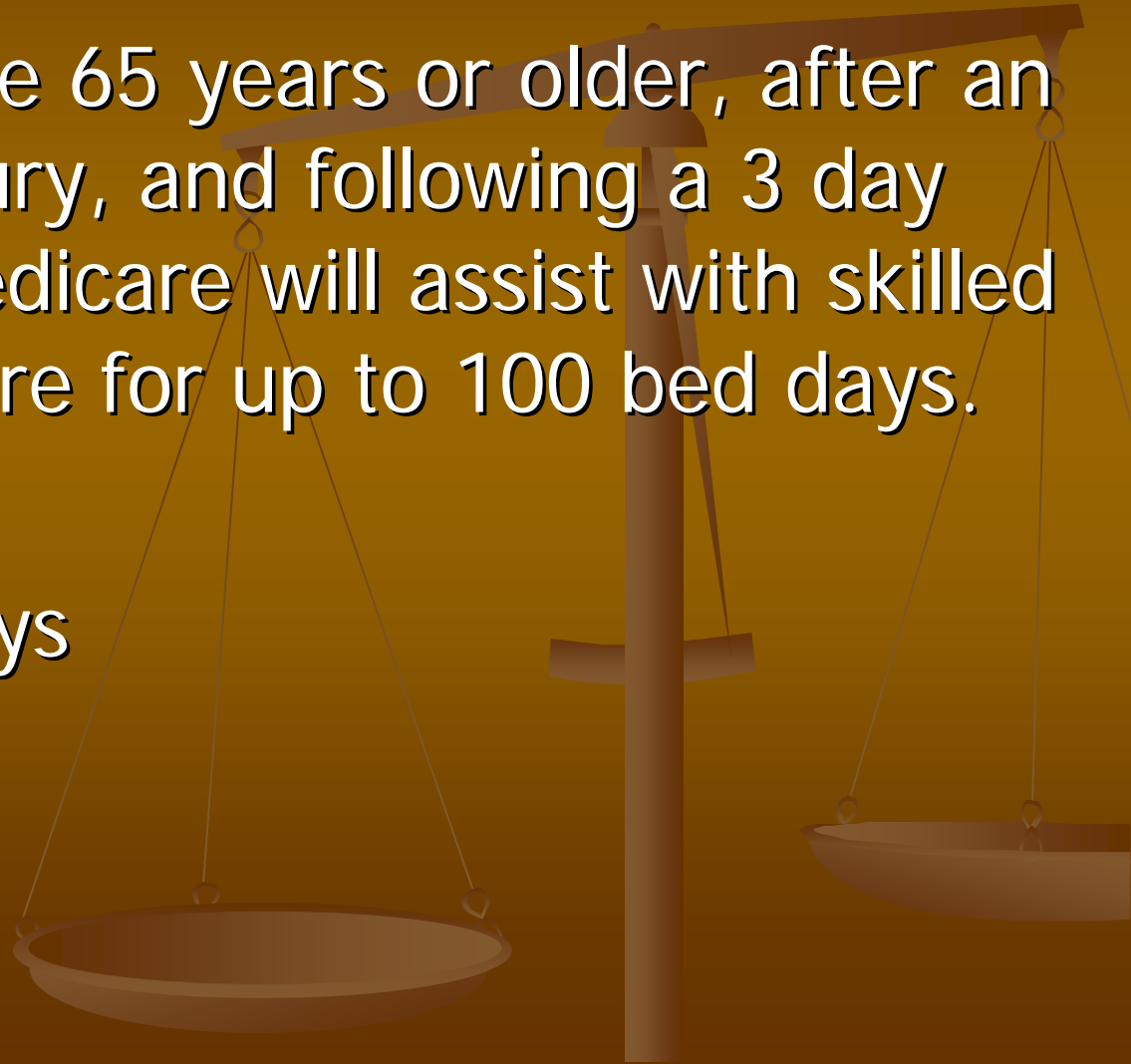
ANSWER: NO!

Medicare only pays for short-term nursing home care, which is defined as 100 bed days or less.



# Who Does Medicare Pay For?

- An individual, age 65 years or older, after an illness, or an injury, and following a 3 day hospital stay, Medicare will assist with skilled nursing home care for up to 100 bed days.
- Average – 40 days



# What Is Skilled Care?

- Skilled nursing home care is defined as a medical condition which can be improved through the assistance of medical practitioners, including: doctors, RNs, therapists – physical and occupational, etc. Additionally, skilled care benefits end when the individual is no longer improving or at day 101.

# How Much Does Medicare Pay?

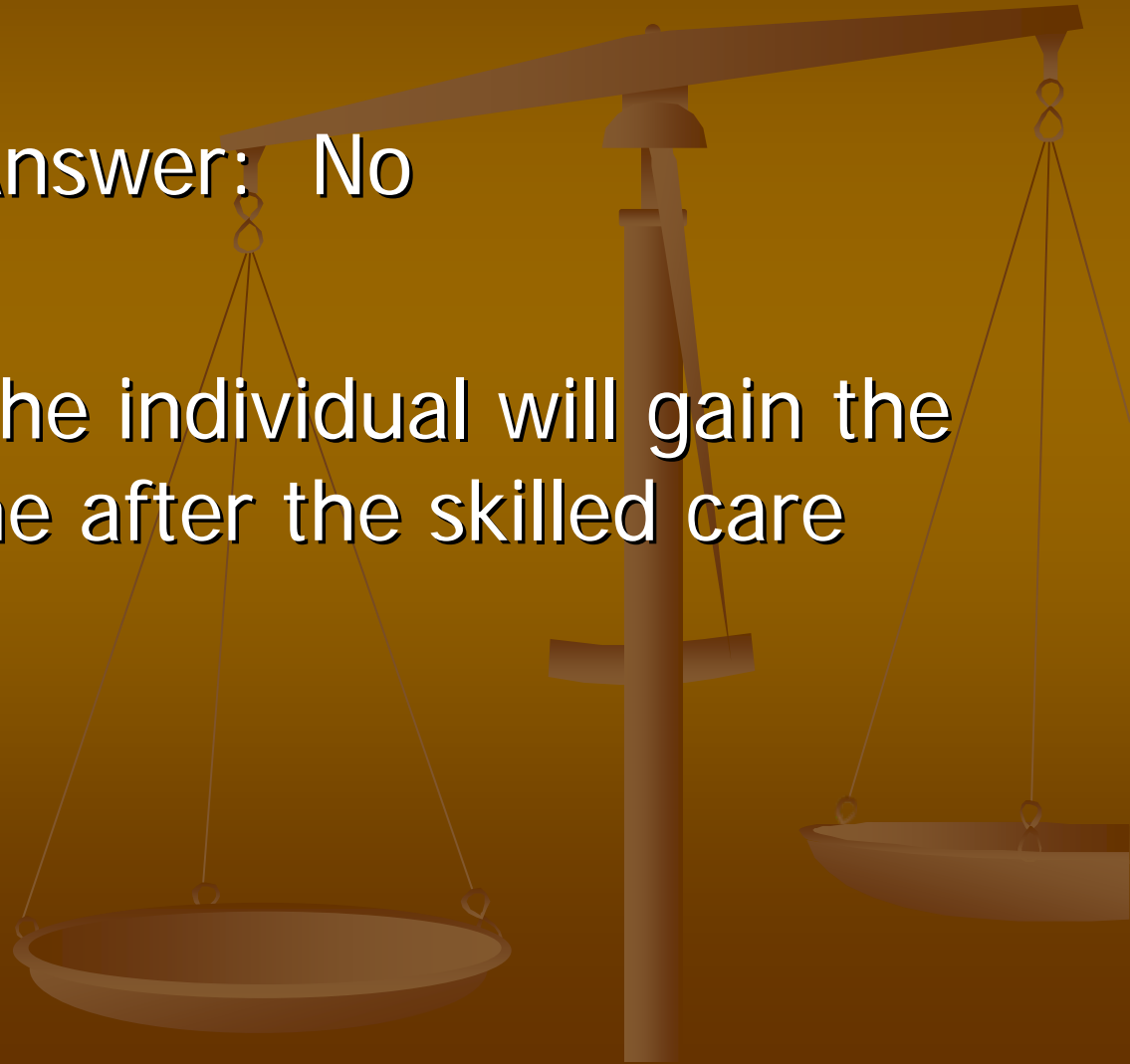
<b>2007</b>	<b>Medicare</b>	<b>Patient</b>
<b>Days 1-20</b>	<b>All</b>	<b>\$ 0.00</b>
<b>Days 21-100</b>	<b>Everything over \$124.00</b>	<b>\$124.00</b>

If an individual has a Medicare Supplemental Insurance Plan, the co-pay amount for days 21 - 100 is generally covered.

# Does A Medicare Case Always Develop Into A LTC Case?

Answer: No

- In many cases, the individual will gain the ability to go home after the skilled care coverage.



# Sources Of Private Pay Payments For LTC:

- Nursing Home Insurance
- The Individual's Assets and Income



# Part Three



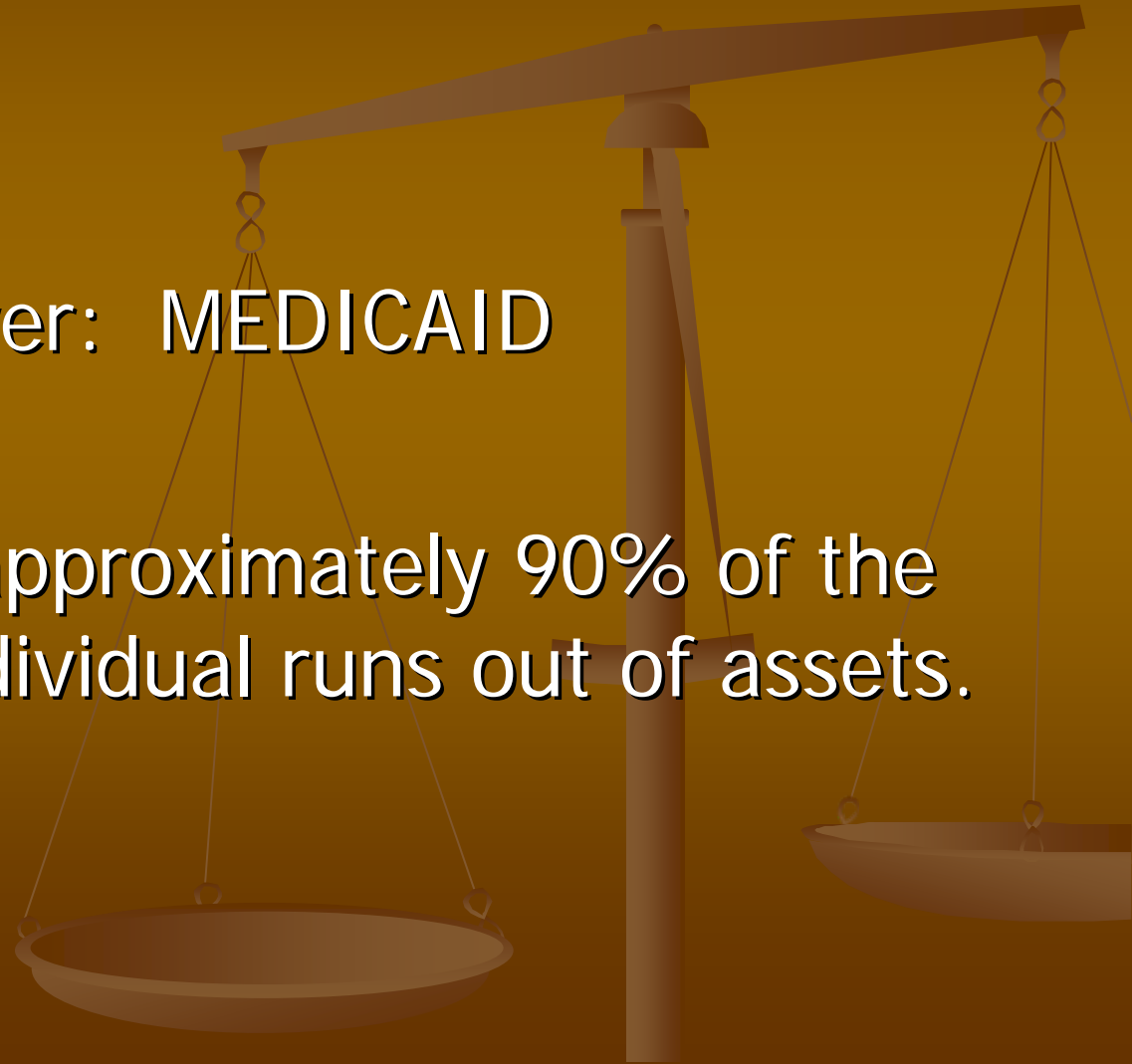
Medicaid

A balance scale is shown against a dark brown background. The scale is tilted, with the left pan hanging lower than the right pan. The word "Medicaid" is written in white text above the left pan. The right pan is empty and hangs higher. The scale's beam is horizontal, and the pans are suspended by thin lines. The overall image is a monochromatic brown color scheme.

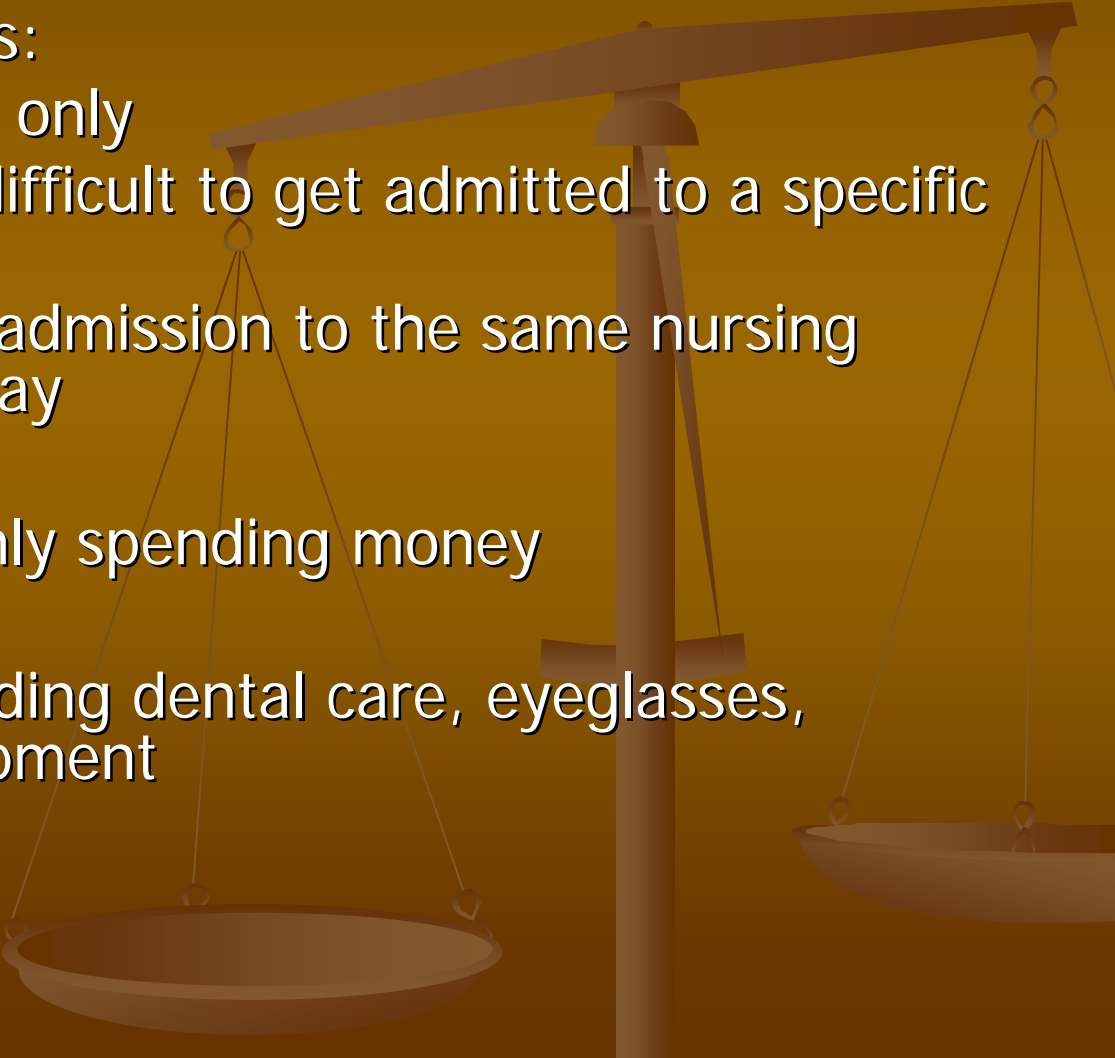
# When Private Payments Aren't Enough: What's Next?

Answer: MEDICAID

This occurs in approximately 90% of the cases – the individual runs out of assets.

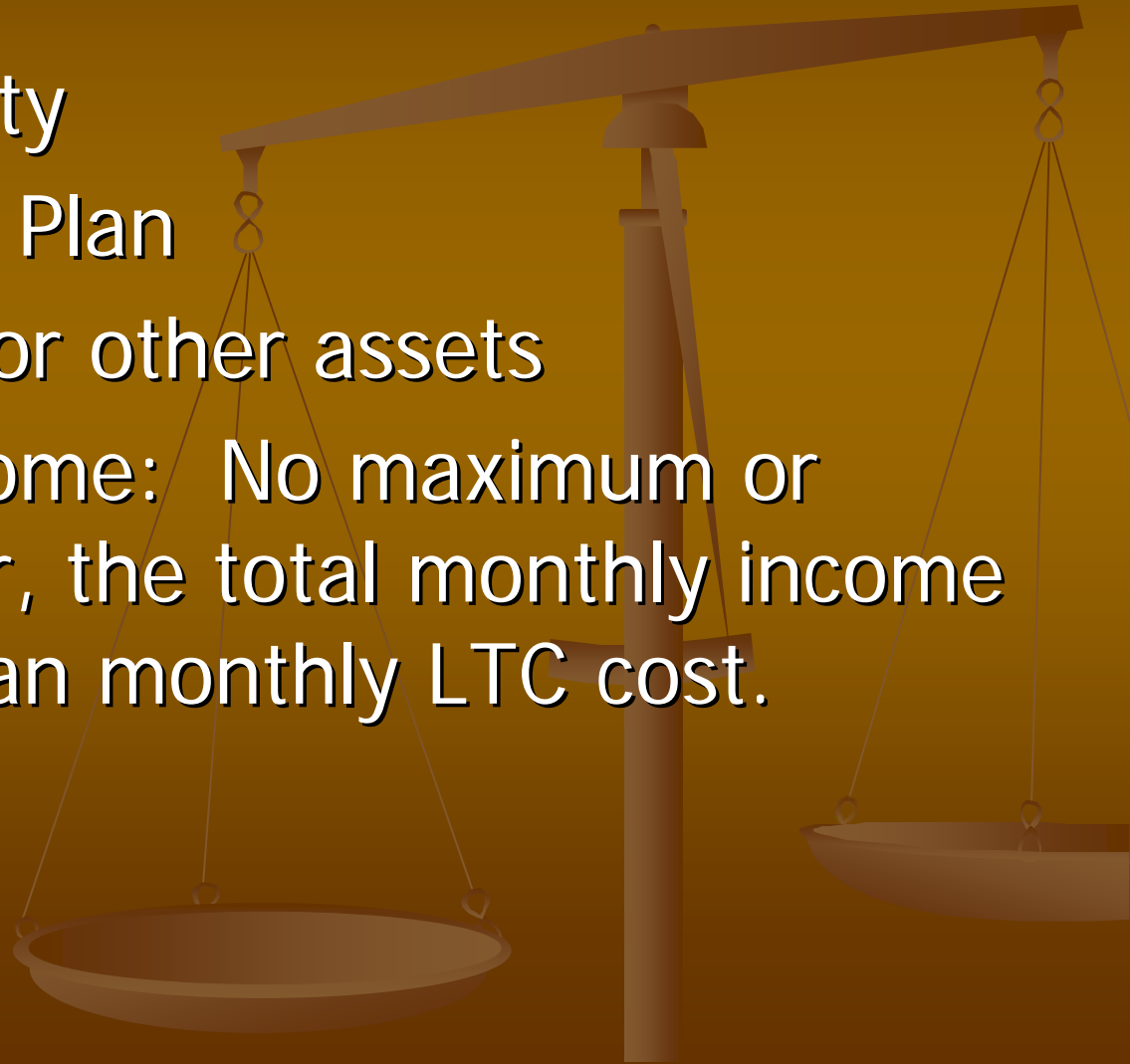


# What Does It Mean To Rely On Medicaid?

- LTC in Nursing Homes:
    - Semi-private room only
    - Sometimes more difficult to get admitted to a specific nursing home
    - No guaranteed re-admission to the same nursing home – hospital stay
  - Only \$30.00 of monthly spending money
  - Limited “extras” including dental care, eyeglasses, durable medical equipment
- 

# Exempt Assets - Individual

- Personal Property
- Prepaid Funeral Plan
- \$2,000 of cash or other assets
- Individual's Income: No maximum or "cap". However, the total monthly income must be less than monthly LTC cost.



# Exempt Assets - Couple

- Home
- One Automobile
- Furniture and Personal Property
- Prepaid Funeral Plans
- \$101,640 of Cash or Other Assets



# Nonexempt Assets

- Cash
- Savings and Checking Accounts
- Stocks, Bonds, Mutual funds
- Cash Value Life Insurance
- Tax-Deferred Annuities
- Retirement Accounts
- Second Automobiles
- Second Homes
- Recreational Vehicles: Boats, Motor Homes, Snowmobiles

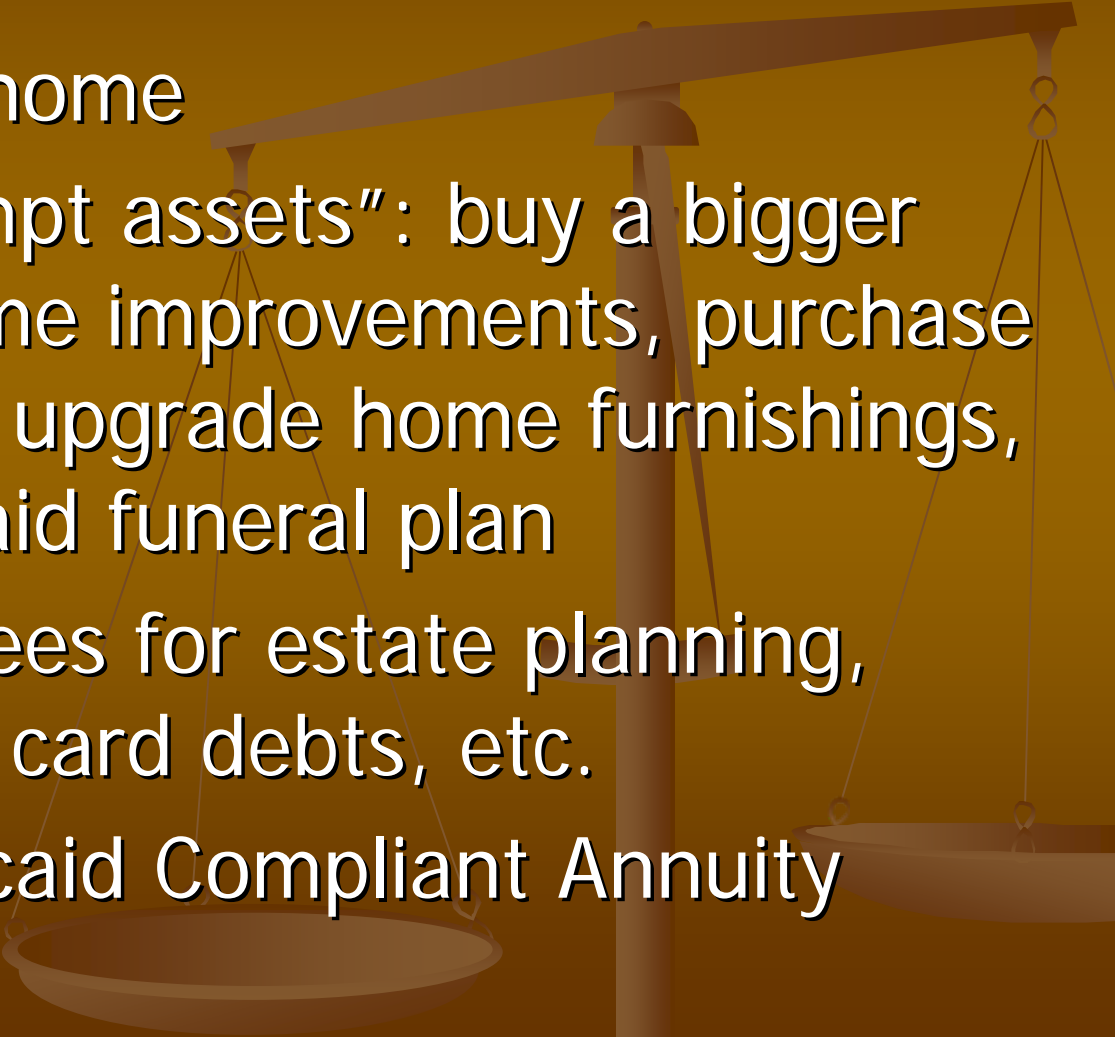


# Part Four

Medicaid Planning



# How To Eliminate The Spend-Down Amount – Typical

- Pay the nursing home
  - Convert to “exempt assets”: buy a bigger house, make home improvements, purchase new automobile, upgrade home furnishings, purchase a prepaid funeral plan
  - Pay bills: legal fees for estate planning, mortgage, credit card debts, etc.
  - Purchase a Medicaid Compliant Annuity
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# Spend-Down Example – Couple Illinois

Alice Smith entered Windy City Nursing Home on August 1, 2007, for custodial nursing home care - \$6,500 per month. Together, Alice, and her husband, Bob, own a home, automobile, household furnishings, and have \$200,000 in savings.

Question 1: Is Alice entitled to Medicare benefits?

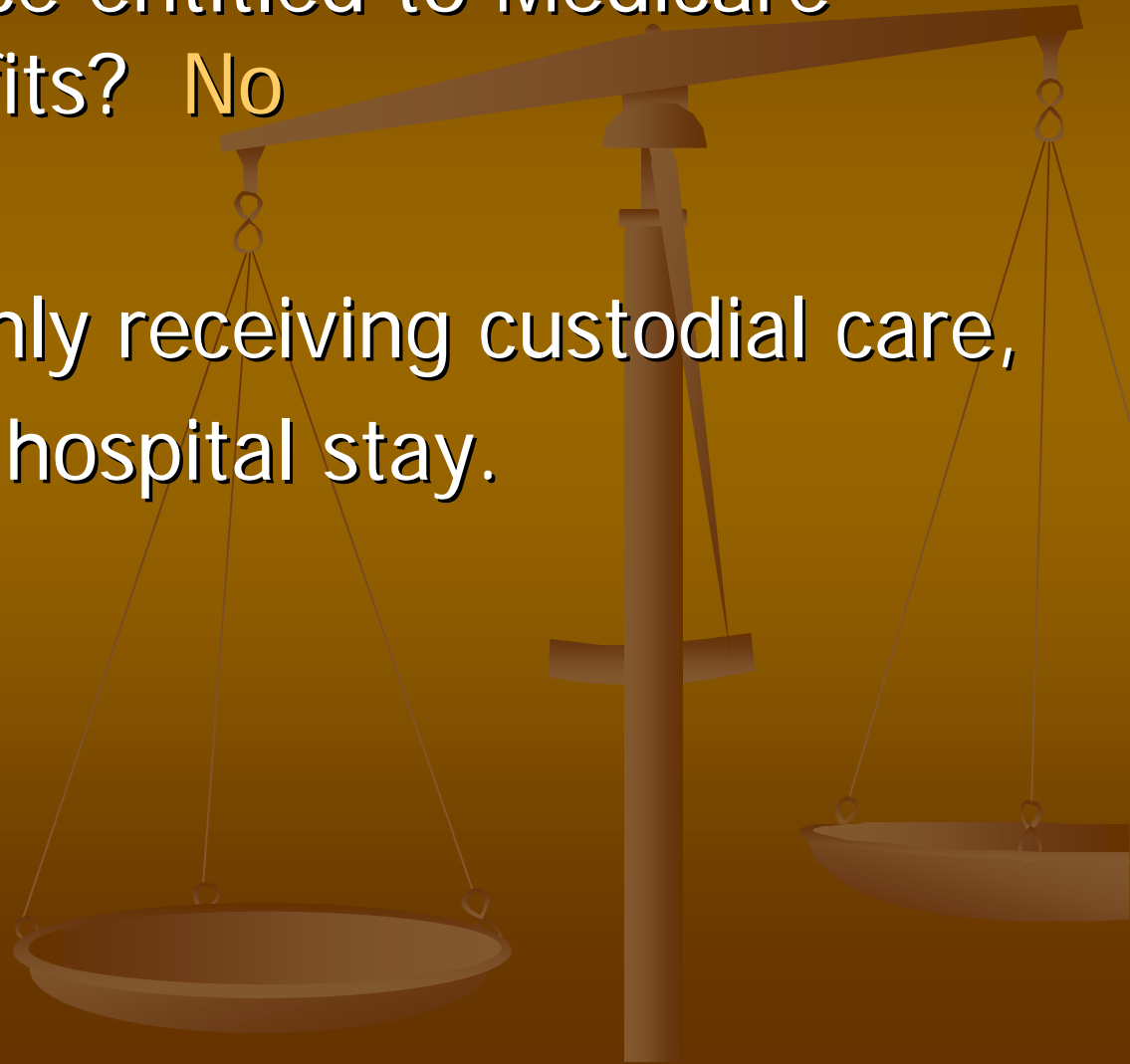
Question 2: What is Bob's CSRA amount?

Question 3: What is the spend-down amount?

# Answer - 1

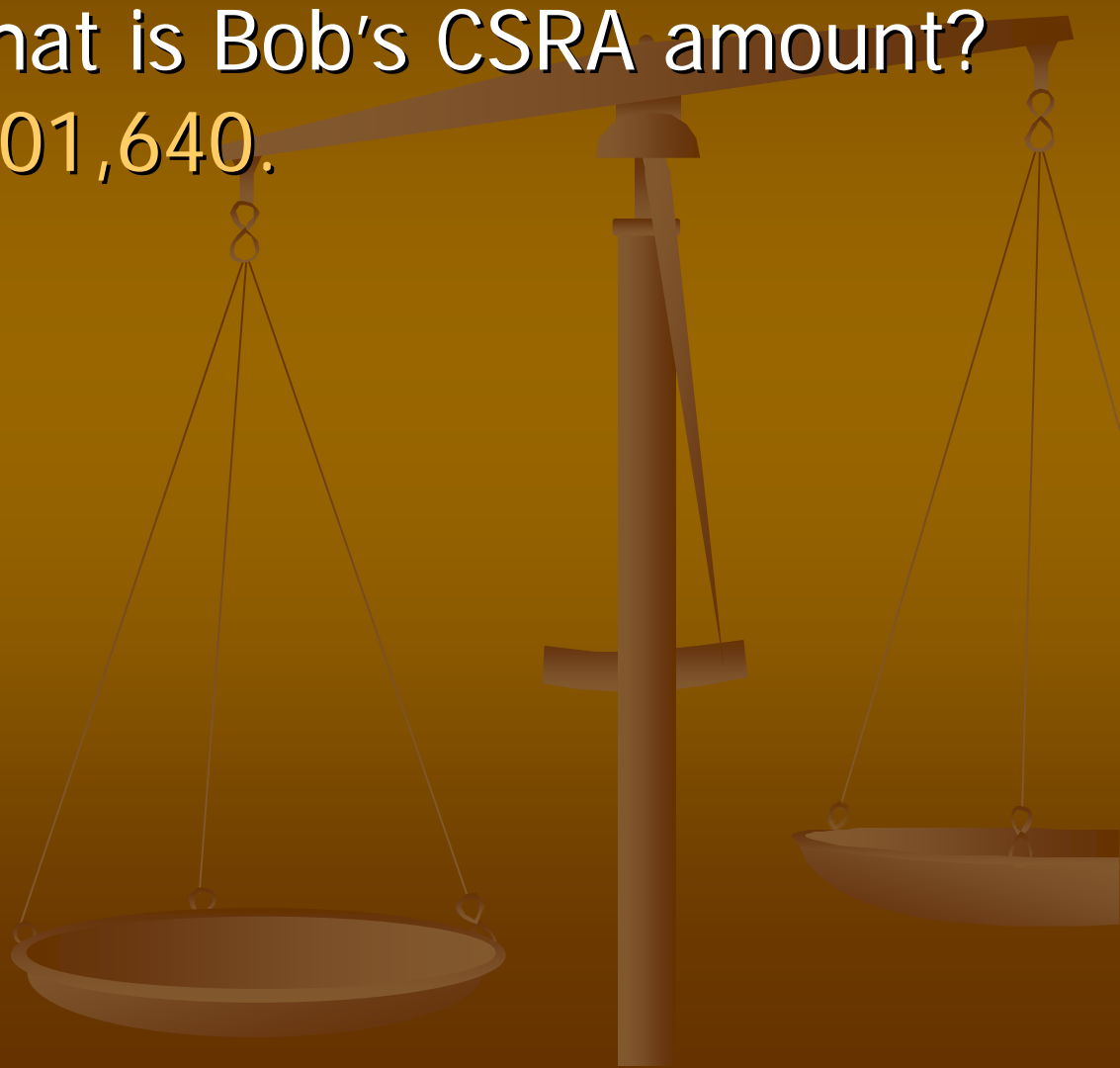
Question 1: Is Alice entitled to Medicare benefits? **No**

Reason: She is only receiving custodial care, no prior hospital stay.



# Answer - 2

Question 2: What is Bob's CSRA amount?  
\$101,640.



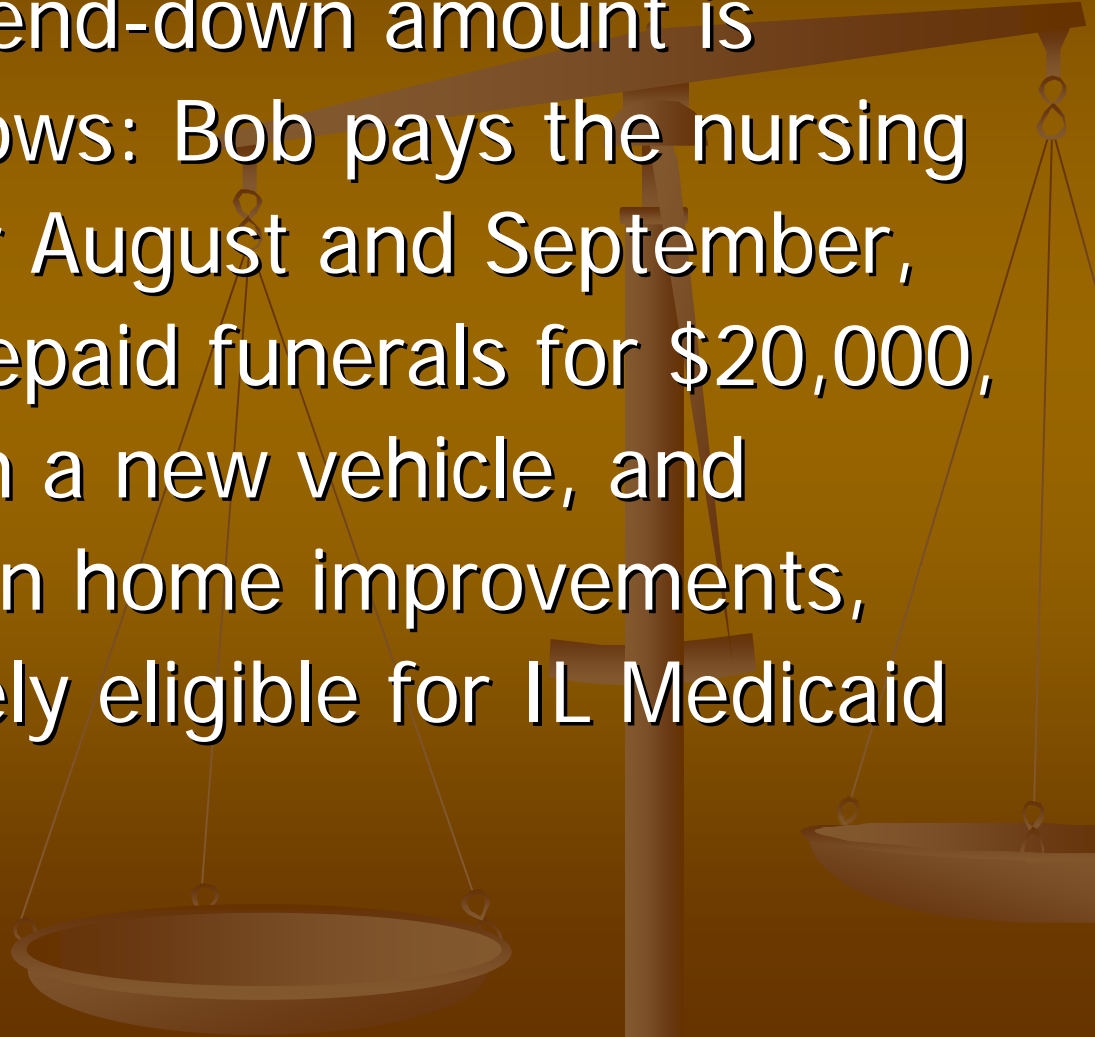
# Answer - 3

Question 3: What is the spend-down amount? **\$96,360**

Reason: This amount was determined by reducing the countable resources by Bob's \$101,640 resource allowance, and by Alice's \$2,000 resource allowance.



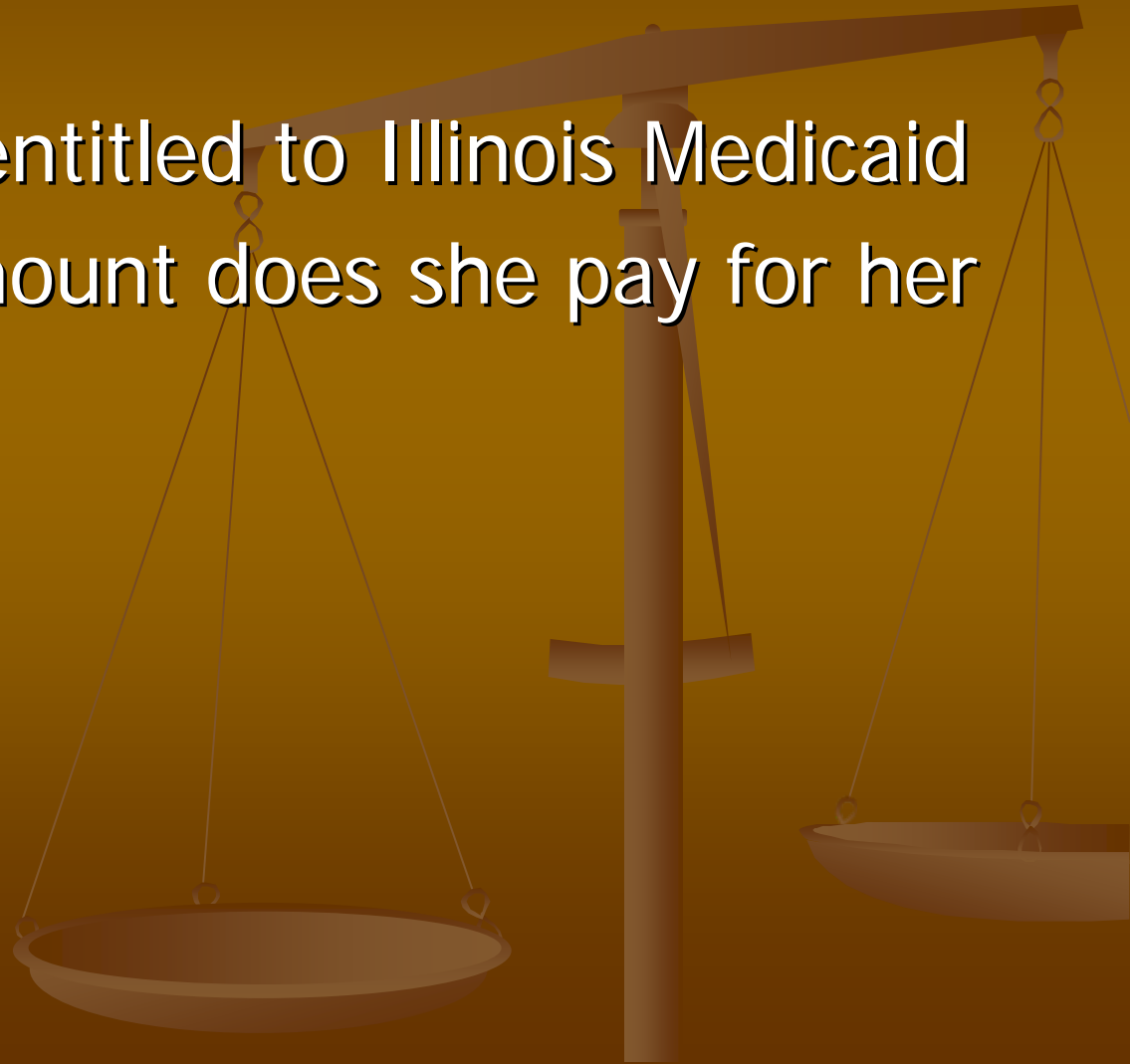
# Financial Solution



If the \$96,360 spend-down amount is eliminated as follows: Bob pays the nursing home \$13,000 for August and September, purchases two prepaid funerals for \$20,000, invests \$45,000 in a new vehicle, and spends \$18,360 on home improvements, Alice is immediately eligible for IL Medicaid benefits.

# Alice's Monthly Co-Pay

With Alice being entitled to Illinois Medicaid benefits, what amount does she pay for her care?

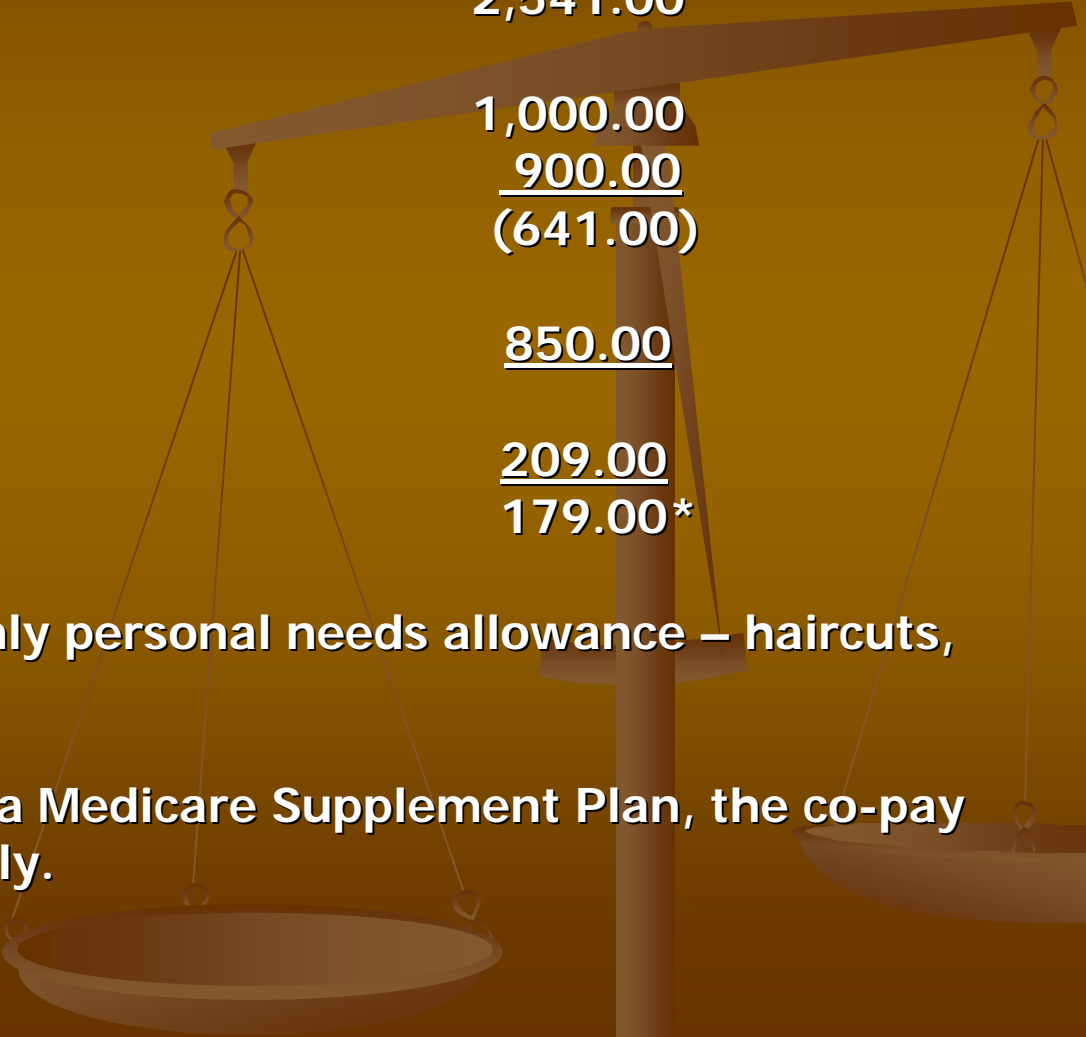


# Monthly Maintenance Needs Allowance (“MMNA”)

In order to determine what Alice pays for her care, we first need to determine what Bob gets to keep from the monthly income (MMNA).

The MMNA in IL is: \$2,541

# Alice's Monthly Co-Pay



<b>BOB'S MMNA:</b>	<b>2,541.00</b>
<b>LESS:</b>	
<b>BOB'S SOCIAL SECURITY</b>	<b>1,000.00</b>
<b>BOB'S PENSION</b>	<b><u>900.00</u></b>
<b>SHORT-FALL</b>	<b>(641.00)</b>
<b>ALICE'S SOCIAL SECURITY</b>	<b><u>850.00</u></b>
<b>ALICE'S NET INCOME</b>	<b><u>209.00</u></b>
<b>ALICE'S MONTHLY CO-PAY</b>	<b>179.00*</b>

\*\$209.00 less \$30.00 monthly personal needs allowance – haircuts, toiletries, etc.

**Note:** Also, if Alice pays for a Medicare Supplement Plan, the co-pay would be reduced accordingly.

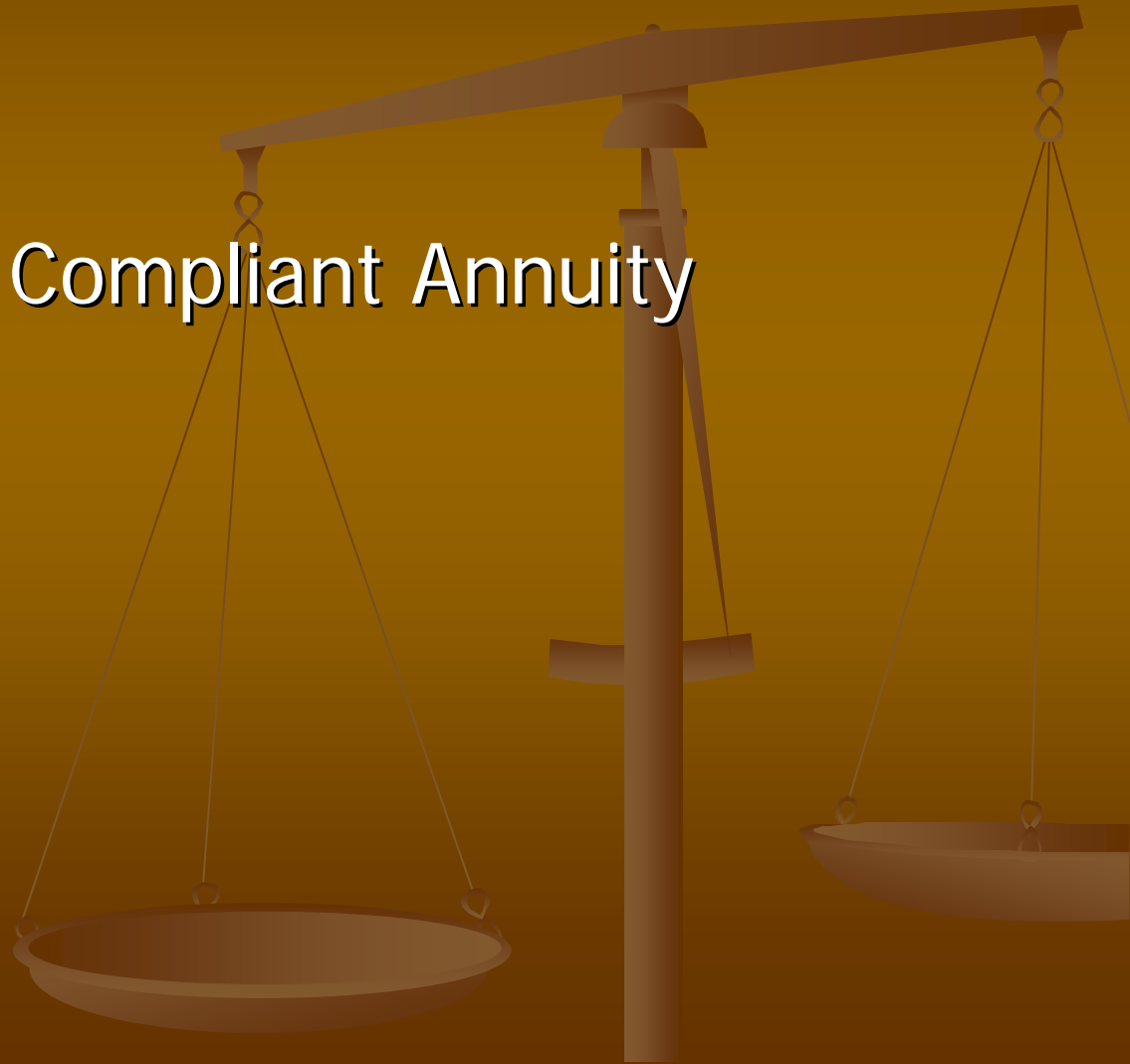
# Monthly Savings

With Windy City charging Alice \$6,500 per month for her care, and by qualifying for the Medicaid Program with a monthly co-payment of \$179, Bob and Alice will save \$6,321 per month on Alice's LTC costs.

NOTE: Without any Medicaid planning, Bob and Alice would have lost their life savings of \$200,000 in approximately 30 months. ( $\$200,000 \div \$6,500$ ).

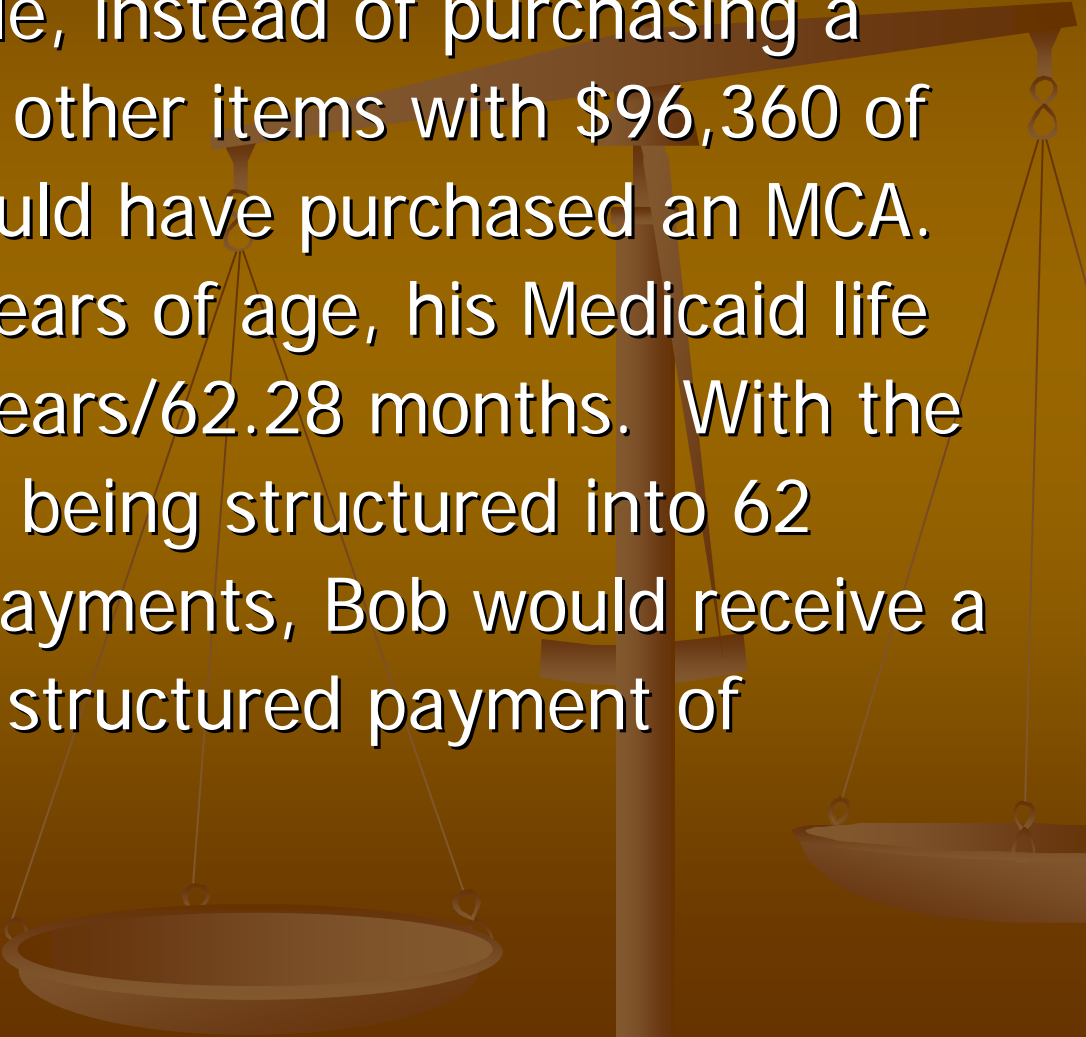
# Part Five

Medicaid Compliant Annuity



# MCA Solution

As in the last example, instead of purchasing a new automobile and other items with \$96,360 of spend-down, Bob could have purchased an MCA. With Bob being 85 years of age, his Medicaid life expectancy is 5.19 years/62.28 months. With the spend-down amount being structured into 62 equal and monthly payments, Bob would receive a guaranteed monthly structured payment of \$1,590.



# MCA – Alice's Monthly Co-Pay

BOB'S MMNA:	2,541.00
LESS:	
BOB'S SOCIAL SECURITY	1,000.00
BOB'S PENSION	900.00
BOB'S MCA	<u>1,590.00</u>
	3,490.00

ALICE'S SOCIAL SECURITY	<u>850.00</u>
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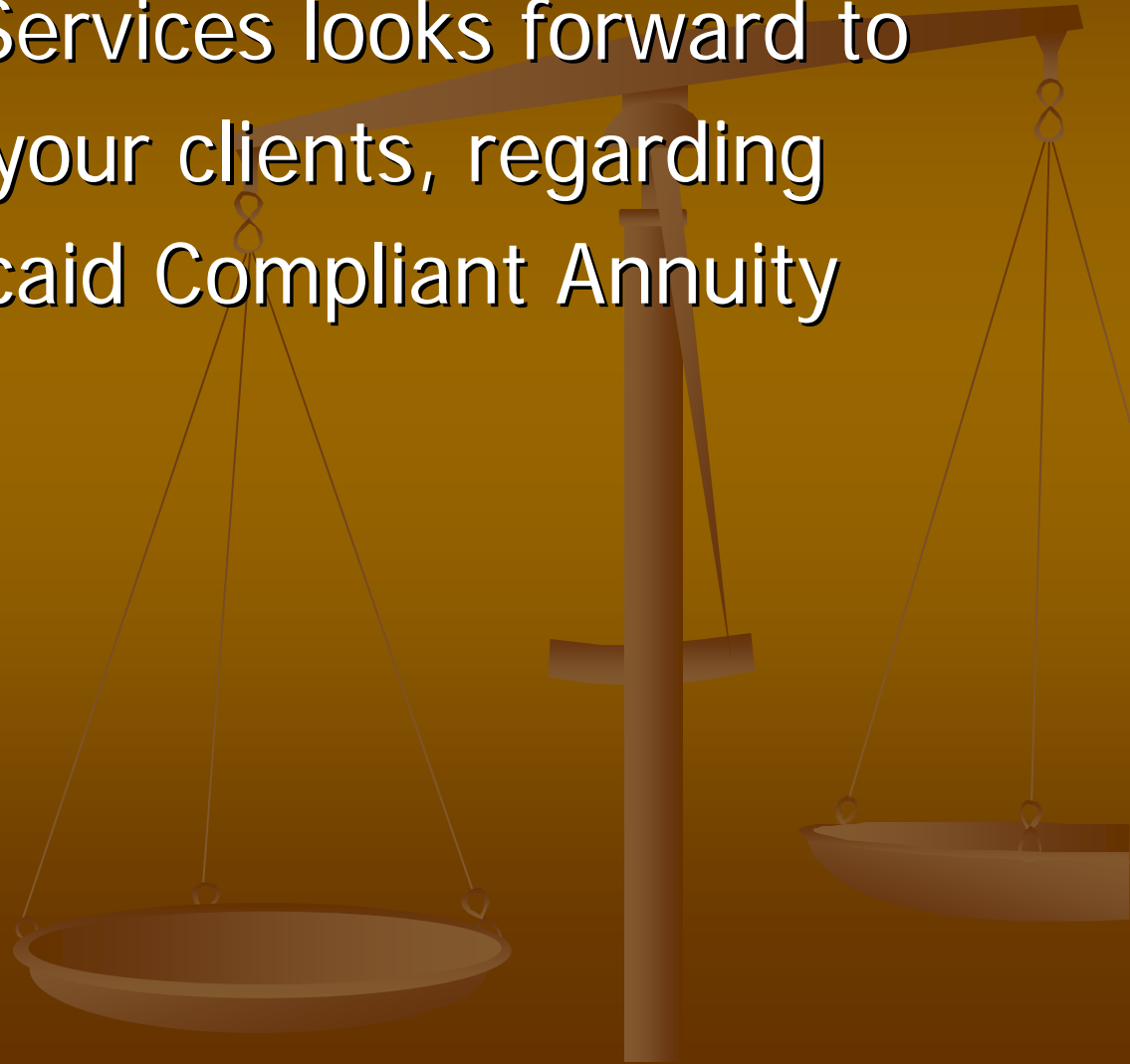
ALICE'S MONTHLY CO-PAY	820.00*
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\*\$850.00 less \$30.00 monthly personal needs allowance – haircuts, toiletries, etc.

Note: Also, if Alice pays for a Medicare Supplement Plan, the co-pay would be reduced accordingly.

# Closing Comment

Krause Financial Services looks forward to serving you, and your clients, regarding their Illinois Medicaid Compliant Annuity needs.



**The End.**

