CASE STUDY

COMMUNITY SPOUSE

KRAUSE FINANCIAL SERVICES

CASE STUDY: COMMUNITY SPOUSE

MEET KEN & JUDITH

Ken (79) and Judith (75) are residents of Virginia. After a long struggle with Parkinson's disease, Ken enters a nursing home, which costs $8,000/month. Judith, hoping to maintain her lifestyle within the community, needs to qualify Ken for Medicaid benefits to help pay for his high cost of care. She turns to a local elder law attorney for help.

Together, Ken and Judith have a home, standard personal property, one car, pre-paid funerals, and $250,000 in checking and savings accounts. Ken receives $1,800/month from Social Security and Judith receives $1,000/month from Social Security.

Goal:
Obtain immediate Medicaid eligibility for Ken, provide sufficient income for Judith, and preserve the couple's assets.

CASE FACTS

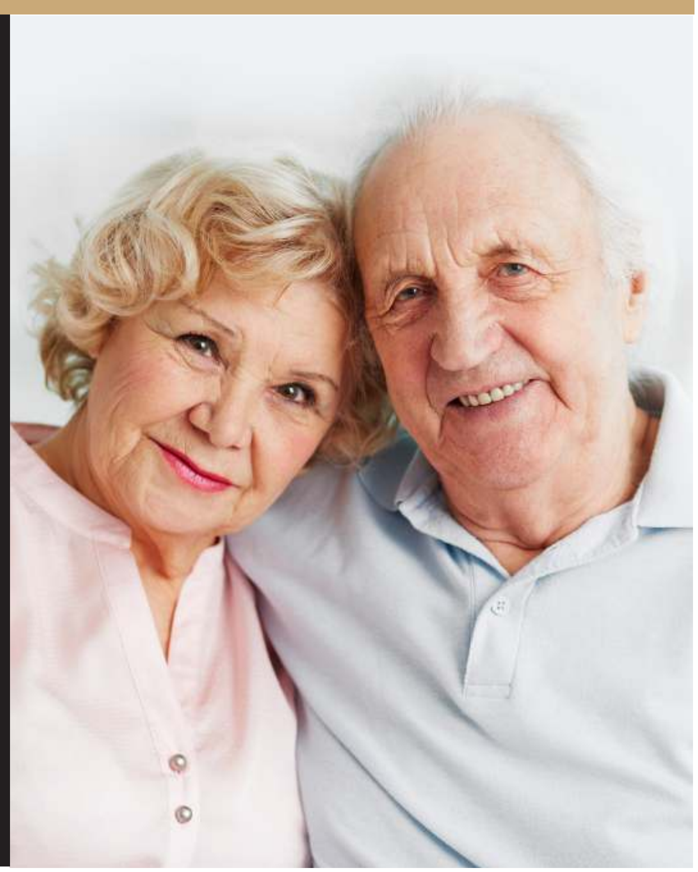
Assets:	$250,000
Income:	$1,800 (Ken)
	$1,000 (Judith)
Cost of Care:	$8,000

CHALLENGE

With the nursing home bill being $8,000/month, the couple is at risk of depleting their life savings trying to pay for the care Ken needs. Additionally, Judith is concerned she will not be able to afford her own living expenses.

SOLUTION

Use a Medicaid Compliant Annuity to spend-down the couple's excess countable assets. Ken will achieve immediate Medicaid eligibility and Judith will be left with sufficient income to maintain her lifestyle.



1. **STEP ONE:**

DETERMINE THE SPEND-DOWN AMOUNT

Judith is allowed to retain up to one-half of the countable assets, not to exceed the maximum Community Spouse Resource Allowance (CSRA) of $123,600. In this case, she may retain the maximum of $123,600. Ken may retain $2,000 as his Individual Resource Allowance. Thus, the spend-down amount equals $124,400.

Countable Assets:	$250,000
Judith's CSRA:	– $123,600
Ken's Individual Resource Allowance:	– $2,000
Total Monthly Expenses:	$124,400

2. **STEP TWO:**

IMPLEMENT THE ANNUITY PLAN

The spend-down amount of $124,400 is funded into an MCA, converting the couple's excess assets into an income stream for Judith. Due to her high living expenses, Judith and her attorney agree to utilize a 36-month annuity term to ensure she is left with sufficient income. Because this term is shorter than her Medicaid life expectancy[1] , the term is actuarially sound.

Single Premium	Period Certain	Monthly Payout	Total Payout
$124,400	**36 Months**	**$3,490**	**$125,640**

3. **STEP THREE:**

APPLY FOR MEDICAID

By purchasing the MCA, the spend-down amount is eliminated, and Ken is immediately eligible for Medicaid. With the MCA payment, Judith's total income increases to $4,490. Because this amount exceeds her Monthly Maintenance Needs Allowance (MMNA) of $3,090[2], she does not receive any of Ken's income. As such, Ken's monthly Medicaid co-pay equals all his monthly income of $1,800 less his Personal Needs Allowance of $40, or $1,760.

Judith's Income:	$1,000
MCA Income:	+ $3,490
Judith's New Income:	$4,490

Ken's Income:	$1,800
Personal Needs Allowance:	– $40
Ken's Medicaid Co-Pay:	$1,760

RESULTS

Judith's income increases from $1,000/month to $4,490/month. This is more than she would receive under the MMNA rules alone.

By opting to utilize a shorter annuity term, Judith increases the likelihood she will survive the annuity term, preventing the state Medicaid agency from collecting against the MCA as primary beneficiary.

If the couple chose not to proceed with the plan, they would exhaust their entire spend-down amount in approximately 15 months[3].

ADDITIONAL CONSIDERATIONS

- If Judith wants to ensure she receives an income shift from Ken under the MMNA rules, she could choose to use a longer annuity term, so long as it does not exceed her Medicaid life expectancy. This in turn would reduce Ken's monthly Medicaid co-pay.
- By choosing to use a longer annuity term, Judith increases the likelihood she will predecease the annuity term and risks exposing the remaining MCA balance to the state Medicaid agency.

1. With Judith being 75 years of age, her Virginia Medicaid life expectancy is 12.09 years/145.08 months.
2. This scenario assumes Judith is entitled to the maximum MMNA in Virginia of $3,090.
3. This was determined by dividing the spend-down amount of $124,400 by the cost of care of $8,000.