CASE STUDY

GIFT/MCA PLAN

KRAUSE FINANCIAL SERVICES

CASE STUDY:
GIFT/MCA PLAN

MEET MARY
Mary (80) is a resident of Delaware. After struggling with Dementia for some time, Mary enters a nursing home, which costs $9,000/month. She doesn't want to lose her life savings to pay the nursing home bill. She turns to a local elder law attorney for help.

After selling her home, Mary has standard personal property, a pre-paid funeral, and $150,000 in a savings account. She receives $1,750/month from Social Security.

Goal:
Obtain Medicaid eligibility for Mary as quickly as possible while also creating a wealth transfer to her loved ones.

CASE FACTS

Assets:	$150,000
Income:	$1,750
Cost of Care:	$9,000
Divestment Penalty Divisior:	$9,369

CHALLENGE
With the nursing home bill being $9,000/month, Mary is at risk of depleting all of her assets. Additionally, Mary wants to make a wealth transfer to her children who helped care for her before entering the nursing home.

SOLUTION
Gift a portion of Mary's countable assets to her children and use a Medicaid Compliant Annuity with the remaining assets to help pay for her care during her penalty period. Mary will be eligible for Medicaid at the end of her penalty period.

1. STEP ONE: DETERMINE THE SPEND-DOWN AMOUNT

Mary is allowed to keep $2,000 of countable assets. With the countable assets of $150,000 being reduced by the protected amount of $2,000, the difference equals the spend-down amount, or $148,000.

Countable Assets:	$150,000
Mary's Individual Resource Allowance:	– $2,000
Spend-Down Amount:	$148,000

2. STEP TWO: IMPLEMENT THE ANNUITY PLAN

With Mary's monthly income being $1,750, and her cost of care being $9,000, she has a monthly income shortfall of $7,250. This amount is added to the Delaware divestment penalty divisor of $9,369. This represents the burn rate, or $16,619. With the spend-down amount of $148,000 being divided by the burn rate, the resulting figure is 8.9 months, which is rounded up to 9 months. This is the length of the plan.

To determine the gift amount, multiply the length of the plan (9 months) by the divestment penalty divisor of $9,369, for a total gift amount of $84,321. When the spend-down amount of $148,000 is reduced by the gift amount of $84,321, the resulting figure is the single premium amount, or $63,679.

Cost of Care:	$9,000
Mary's Income:	– $1,750
Mary's Shortfall:	$7,250
Divestment Penalty Divisor:	+ $9,369
Burn Rate:	$16,619

Spend-Down Amount:	$148,000
Burn Rate:	÷ $16,619
Length of Plan:	8.9
Rounded To:	9 Months

Length of Plan:	9
Divestment Penalty Period:	x $9,369
Gift Amount:	$84,321

3. STEP THREE: APPLY FOR MEDICAID

With the gift to Mary's children and the purchase of the MCA, Mary applies for Medicaid to commence her 9-month penalty period. During this time, she will use her increased monthly income of $8,845 to pay her nursing home bill. She will have an income shortfall of $155/month throughout the penalty period, which she can afford using her resource allowance or with some help from her children.

Single Premium	Period Certain	Monthly Payout	Total Payout
$63,679	**9 Months**	**$7,095**	**$63,855**

RESULTS

In month 10, Mary will be eligible for Medicaid benefits. Her monthly Medicaid co-pay will be $1,700[1].

Mary makes a wealth transfer to her children of $84,321 – this is more than 50% of her spend-down amount.

If Mary chose not to proceed with the plan, she would exhaust her entire spend-down amount in 20 months[2].

ADDITIONAL CONSIDERATIONS

- If Mary predeceases the 9-month plan, she will not have gained any economic benefit.
- If Mary'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.

1. This was determined by deducting Mary's Personal Needs Allowance of $50 from her Social Security income of $1,750.
2. This was determined by dividing the spend-down amount of $148,000 by Mary's monthly income shortfall of $7,250.