CASE STUDY

"NAME ON THE CHECK RULE"

KRAUSE
FINANCIAL SERVICES

CASE STUDY: "NAME ON THE CHECK RULE"

MEET JOHN & HELEN

John (85) and Helen (83) are residents of Wisconsin. John is in failing health and must enter a nursing home, which costs $7,500/month. Helen, hoping to maintain her lifestyle within the community, needs to qualify John for Medicaid benefits to help pay for his high cost of care. She turns to a local elder law attorney for help.

Together, John and Helen have a home, standard personal property, one car, pre-paid funerals, and $350,000 in countable assets – $200,000 of which consists of John's IRA. John receives $2,500/month from Social Security and a pension, and Helen receives $1,500/month from Social Security.

Goal:
Obtain immediate Medicaid eligibility for John, provide sufficient income for Helen, and avoid large tax consequences associated with John's IRA.

CASE FACTS

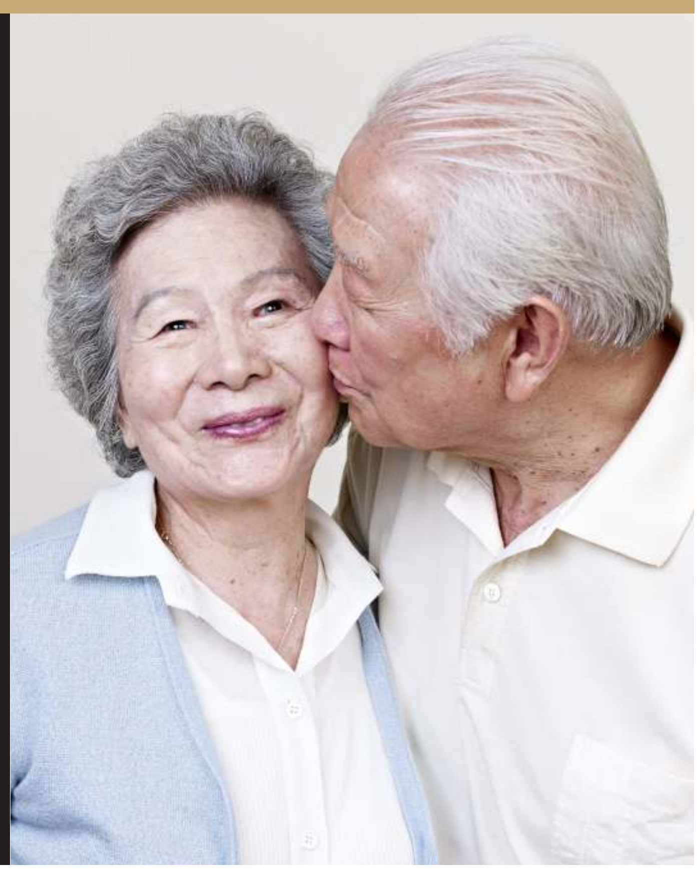
Assets:	$350,000 ($200,000 in IRA)
Income:	$2,500 (John) $1,500 (Helen)
Cost of Care:	$7,500

CHALLENGE

With the nursing home bill being $7,500/month, the couple is at risk of depleting their life savings trying to pay for the care John needs. Additionally, John and Helen fear they will face significant tax consequences if they liquidate John's IRA.

SOLUTION

Use a Medicaid Compliant Annuity and "Name on the Check Rule" to spend-down the couple's excess countable assets. John, the MCA owner, will achieve immediate Medicaid eligibility and Helen, as payee, will be left with sufficient income and assets to maintain her lifestyle.



1.

STEP ONE:

DETERMINE THE SPEND-DOWN AMOUNT

Helen 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. John may retain $2,000 as his Individual Resource Allowance. Additionally, Helen's car is in poor condition, so she uses $24,400 to upgrade her vehicle. Thus, the spend-down amount equals $200,000.

Countable Assets:	$350,000
Helen's CSRA:	– $123,600
New Vehicle:	– $24,400
John's Individual Resource Allowance:	– $2,000
Spend-Down:	$200,000

2.

STEP TWO:

IMPLEMENT THE ANNUITY PLAN

The spend-down amount of $200,000 is funded into an MCA owned by John via 60-day rollover from his IRA. The MCA income is made payable to Helen only. Because the couple is using the "Name on the Check Rule," their attorney recommends structuring the annuity using John's full Medicaid life expectancy. With John being 85 years of age, his Wisconsin Medicaid life expectancy is 5.91 years/70.92 months.

Single Premium	Period Certain	Monthly Payout	Total Payout
$200,000	**70 Months**	**$2,910**	**$203,700**

3.

STEP THREE:

APPLY FOR MEDICAID

By purchasing the MCA, the spend-down amount is eliminated, and John is immediately eligible for Medicaid. With the MCA payment, Helen's total income increases to $4,410. Because this amount exceeds her Monthly Maintenance Needs Allowance (MMNA) of $3,090[1], she does not receive any of John's income. As such, John's monthly Medicaid co-pay equals all his monthly income of $2,000 less his Personal Needs Allowance of $45, or $1,955.

Helen's Income:	$1,500
MCA Income:	+ $2,910
Helen's New Income:	$4,410

John's Income:	$2,000
Personal Needs Allowance:	– $45
John's Medicaid Co-Pay:	$1,955

RESULTS

Helen's income increases from $1,000/month to $4,410/month. This is more than she would receive under the MMNA rules alone.

By opting to make the annuity payable to Helen using the "Name on the Check Rule," the couple saves John from incurring significant tax consequences and also prevents the MCA payments from becoming part of John's monthly Medicaid co-pay.

If the couple chose not to proceed with the plan, they would exhaust their entire spend-down amount in approximately 26 months[2].

ADDITIONAL CONSIDERATIONS

- If Helen predeceases the annuity term, the MCA income would revert to John, as he is the owner of the contract. This would cause his Medicaid co-pay to increase.
- If Helen predeceases John, and John predeceases the annuity term, the state Medicaid agency would be eligible to recover remaining benefits in the MCA as beneficiary.

1. This scenario assumes Helen is entitled to the maximum MMNA in Wisconsin of $3,090.
2. This was determined by dividing the net spend-down amount of $200,000 by the cost of care of $7,500.