INDIVIDUAL CASE STUDY:

GIFT/MCA PLAN

MEET NANCY

Nancy (82) is a resident of Michigan. After being diagnosed with Alzheimer's, she enters a nursing home which costs $8,450/month. She doesn't want to lose her life savings to pay the nursing home bill. She also wants to make a wealth transfer to her children. She turns to a local elder law attorney for help.

CASE FACTS

NANCY'S INCOME	ASSETS
$1,800	$182,000
DIVESTMENT PENALTY DIVISOR	**COST OF CARE**
$8,469	$8,450

GOALS:

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

SOLUTION:

Gift a portion of Nancy'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. Nancy will then be eligible for Medicaid benefits at the end of her penalty period.

1. STEP ONE:
DETERMINE THE SPEND-DOWN AMOUNT

Nancy is allowed to keep $2,000 of countable assets. With the countable assets of $182,000 being reduced by the protected amount of $2,000, the difference equals the spend-down amount, or $180,000.

Countable Assets:	$182,000
Nancy's Allowance:	– $2,000
Spend-Down Amount:	$180,000

2. STEP TWO:
IMPLEMENT THE ANNUITY PLAN

With Nancy's monthly income being $1,800, and her cost of care being $8,450, she has a monthly income shortfall of $6,650. This amount is added to the Michigan Divestment Penalty Divisor of $8,469. With the spend-down amount of $180,000 being divided by the burn rate of $15,119, the resulting figure is 11.9 months, which is rounded up to 12 months. This is the length of the plan.

To determine the gift amount, multiply the length of the plan, 12 months, by the Divestment Penalty Divisor of $8,469, for a total gift amount of $101,628. When the spend-down amount of $180,000 is reduced by the gift amount, the resulting figure is the single premium amount, or $78,372. This MCA pays Nancy $6,552/month for 12 months, bringing her total monthly income to $8,352.

Cost of Care:	$8,450
Nancy's Income:	– $1,800
Nancy's Shortfall:	$6,650
Divestment Penalty Divisor:	+ $8,469
Burn Rate	$15,119
Spend-Down Amount:	$180,000
Burn Rate:	÷ $15,119
Length of Plan:	11.9 Mo.
Round Up:	12 Mo.
Length of Plan:	12 Mo.
Divestment Penalty Divisor:	x $8,469
Gift Amount:	$101,628

3. STEP THREE:
APPLY FOR MEDICAID

With the gift to Nancy's children and the purchase of the MCA, Nancy applies for Medicaid to commence her 12-month penalty period. During this time, she will use her increased monthly income of $8,352 to pay her nursing home bill. She will have an income shortfall of $98/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
$78,372	**12 Months**	**$6,552**	**$78,624**

ECONOMIC RESULTS

In month 13, Nancy will be eligible for Medicaid benefits. Her monthly Medicaid co-pay will be $1,740[1].

Nancy makes a wealth transfer to her children of $101,628 – this is more than 50% of her spend-down amount.

If Nancy chose not to proceed with the plan, she would exhaust her entire spend-down amount in 27 months[2].

ADDITIONAL CONSIDERATIONS

- If Nancy predeceases the 12-month plan, she will not have gained any economic benefit.
- If Nancy'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 Nancy's Personal Needs Allowance of $60 from her Social Security income of $1,800.
2. This was determined by dividing the spend-down amount of $180,000 by Nancy's monthly income shortfall of $6,650.