MARRIED COUPLE CASE STUDY:

“NAME ON THE CHECK RULE”

MEET FRANK AND JUDY

Frank (79) and Judy (78) are residents of Pennsylvania. After being diagnosed with Parkinson’s, Frank must enter a nursing home, which costs $9,700/month. Judy worries that paying the nursing home bill might deplete their life savings and they may face significant tax consequences if they liquidate Frank’s IRA, so she talks to a local elder law attorney.

CASE FACTS

FRANK’S INCOME $1,900	ASSETS $360,000
JUDY’S INCOME $1,500	COST OF CARE $9,700

GOALS:

Obtain immediate Medicaid eligibility for Frank, provide sufficient income for Judy, and avoid large tax consequences associated with Frank’s IRA.

SOLUTION:

Use a Medicaid Compliant Annuity and the “Name on the Check Rule” to spend down the couple’s excess countable assets. Frank, the MCA owner, will become eligible for benefits and Judy, as payee, will be left with sufficient income to maintain her lifestyle within the community.

1.

STEP ONE:

DETERMINE THE SPEND-DOWN AMOUNT

Judy is allowed to retain up to one-half of their countable assets, not to exceed the maximum Community Spouse Resource Allowance (CSRA) of $126,420. In this case, she is allowed to keep $126,420. Frank will be allowed to keep $2,400 for his Individual Resource Allowance. Additionally, Judy's car is in poor condition, so she uses $31,180 to upgrade her vehicle. Thus, the spend-down amount is $200,000.

Countable Assets:	$360,000
Judy's CSRA	– $126,420
New Vehicle:	– $31,180
Frank's Allowance:	– $2,400
Spend-Down Amount:	$200,000

2.

STEP TWO:

IMPLEMENT THE ANNUITY PLAN

The spend down amount of $200,000 is funded into a Medicaid Compliant Annuity owned by Frank via 60-Day Rollover from his IRA. The MCA is made payable to Judy only. Because the couple is using the "Name on the Check Rule," their attorney recommends structuring the annuity using Frank's full life expectancy. With Frank being 79 years of age, his Pennsylvania Medicaid life expectancy is 8.41 years / 100.92 months.

Single Premium	Period Certain	Monthly Payout	Total Payout
$200,000	**100 Months**	**$2,055**	**$205,500**

3.

STEP THREE:

APPLY FOR MEDICAID

By purchasing the MCA, the spend-down amount is eliminated, and Frank is immediately eligible for Medicaid. With the MCA payment, Judy's total income increases to $3,555. Because this amount exceeds her Monthly Maintenance Needs Allowance (MMNA) of $3,160.50[1], she does not receive any of Frank's income. As such, Frank's monthly Medicaid co-pay equals all his monthly income of $1,900 less his Personal Needs Allowance of $45, or $1,855.

Judy's Income:	$1,500
MCA Income:	+ $2,055
Judy's New Income:	$3,555
Frank's Income:	$1,900
Personal Needs Allowance:	– $45
Frank's Medicaid Co-Pay:	$1,855

ECONOMIC RESULTS

Judy's Income increases from $1,500/month to $3,555/month. This is more than she would receive under the MMNA rules alone.

By opting to make the annuity payable to Judy using the "Name on the Check Rule," the couple saves Frank from incurring significant tax consequences and also prevents the MCA payments from becoming part of Frank'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 20 months[2].

ADDITIONAL CONSIDERATIONS

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

1. This scenario assumes Judy is entitled to the maximum MMNA in Pennsylvania of $3,160.50.
2. This was determined by dividing the spend-down amount of $200,000 by the cost of care of $9,700.