FACT PATTERN ONE

FACTS:

Igor Beaver is an elderly widower with three adult children. He owns the following assets:

1. A home $150,000 (with a mortgage of $35,000)
2. Bank Accounts $ 50,000
3. Brokerage Account $ 75,000
4. Automobile $ 15,000

His monthly income includes Social Security in the amount of $850 and a pension of $1,200. He has a proper Medicaid durable power of attorney.

What can be done to qualify Igor for Medicaid?

Igor Beaver has total assets of $290,000 with a net worth of $255,000 ($290,000 less mortgage of $35,000). The home and automobile are not countable, so he has $125,000 of countable assets. That is $123,000 "too much" to qualify for Medicaid. We have to deal with the $123,000.

1. <u>Convert Countable Assets to Non-Countable.</u> Take some cash out of the bank and pay off the mortgage. That will reduce the countable assets by $35,000, with no decrease in net worth. He could also buy a more expensive house. Or, he could fix up the house by putting on a new roof, new carpet, etc.

2. <u>Outright Gifts.</u> Igor could gift $88,000 (123,000-35,000) to his children resulting in 16 months ($88,000/5,367=16.39=16) of ineligibility due to divestment.

3. <u>Half-a-loaf.</u> He could gift $44,000 to his children. That would result in eight months of ineligibility. During those eight months he can use the ungifted $44,000 to pay for the nursing home. (Simplified example-actual calculation takes into account income)

*4. <u>Purchase Annuity.</u> He could use the $88,000 to buy an annuity. Purchase of the annuity would not be a divestment as long as the annuity will not be guaranteed to pay out longer than his life expectancy. However, the income from the annuity will go toward the nursing home expense, **and** if he exceeds his life expectancy, there is no value left in the annuity contract for his heirs.

*5. <u>Purchase Balloon Annuity.</u> He could purchase a balloon annuity with the $88,000. The annuity would pay about $88 per month, which may go to the nursing home. One month short of his life expectancy, the annuity will pay about $87, 982.

5. <u>Serial Divestment-simple.</u> Gift $5,367, or less, <u>per month.</u> 5,366/5,367=.99. Round down=0 months of divestment penalty. Each month is a new gifting period. This will take 16 months to get rid of the $88,000.

6. <u>Serial Divestment-fancy.</u> Gift $10,499 per month. The divestment penalty is 1.99, or rounded down, 1. The ineligibility will be for the month of the gift, only. Do the same thing the next month and so on. This will use up the excess assets in less than eight months.

Note that these techniques could even be applied once Igor Beaver enters the nursing home, but before the Medicaid application is filed. The sooner they are started, however, the sooner he can obtain eligibility and the more options there are.

*Note that the annuity strategies (4 and 5) may be inadvisable after June 1, 2005 in light of proposed Medicaid eligibility policy changes issued by the Michigan Department of Community Health.