Retirement Income
JOURNAL

Questions & Answers about: Medicaid Annuities

By Jenna Gottlieb *Thu, Feb 19, 2015*

In this ongoing new feature, RIJ will ask and answer questions that pertain to retirement advisors and their clients. Our first Q&A concerns Medicaid annuities, which middle-class Baby Boomer couples who face nursing home costs should know about.

What is a Medicaid annuity, exactly? A Medicaid-compliant annuity is a “restricted” period-certain annuity that couples can use if one of them is going into a Medicaid-covered nursing home. The healthy spouse can buy a payout annuity with assets that would otherwise have to be spent before the patient could qualify for Medicaid nursing home coverage. The income from the annuity does not count as income for Medicaid purposes.

Who uses Medicaid annuities? The typical clients are in their 70s or 80s, with $200,000 to $300,000 in savings, according to Michael Denton, COO and president of Clarke Financial Group, an Irvine, Calif.-based insurance marketing organization. “They are at the point where they didn’t buy long-term care insurance and they have no other means to pay for long-term care costs,” he told *RIJ*. When one spouse enters a nursing home, the care without insurance might cost $7,000 to $9,000 a month. Instead of paying those bills with savings, “they can put money into a restricted annuity and start an income payout for the healthy spouse. That income doesn’t count toward Medicaid,” Denton said.

How do they work? As a rule, the Medicaid annuity must be a period-certain contract with the healthy spouse as the owner and annuitant, and the term equal to the healthy spouse’s life expectancy. The healthy spouse is the sole payee and state Medicaid department is the primary beneficiary. If the healthy spouse dies before the annuity term is up, the state would recover its costs from the remaining assets and the balance, if any, would go to secondary beneficiaries.

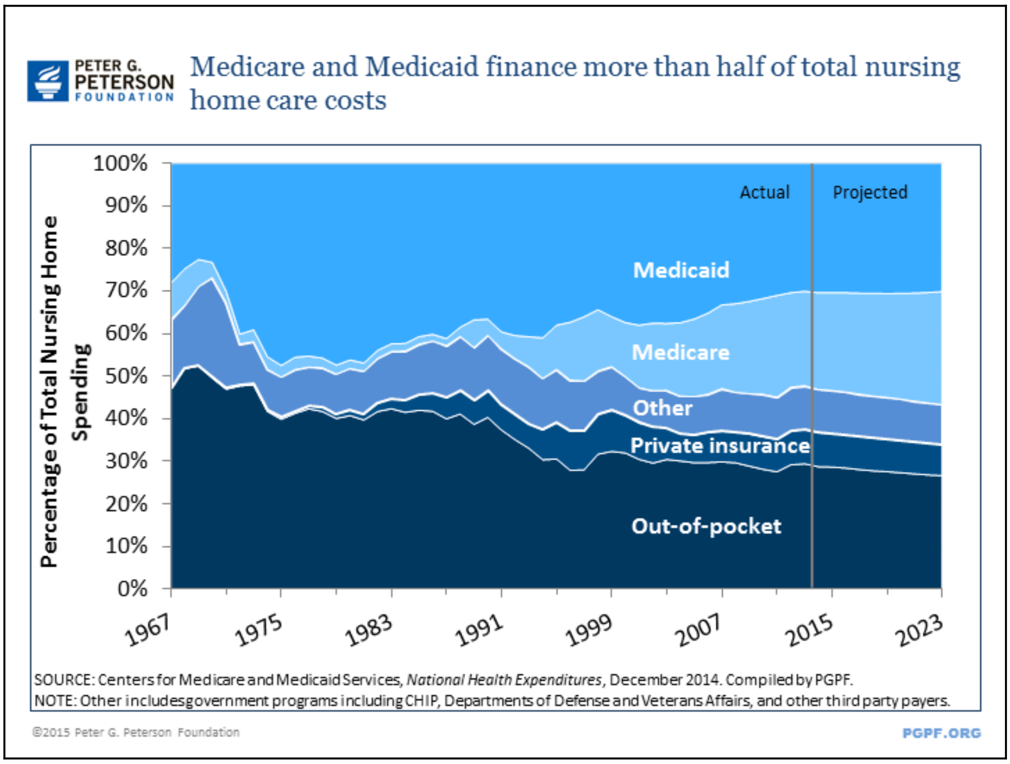
“This saves the healthy spouse from being destitute,” Denton said, with no assets other than the amount allowed by the state. For example, a wife with $230,000 in assets might live in a state where she can keep up to $120,000 for herself without disqualifying her husband, who is in a nursing home, from Medicaid. If she uses the excess $110,000 to purchase a Medicaid annuity, she would receive a monthly income for the length of the term and her husband would qualify immediately for Medicaid nursing home coverage.

Why are Medicaid annuities important? “It’s making more and more sense for a lot of people,” Denton said. “A lot of people have never had the opportunity to buy, or just never bought, long-term care insurance. The saddest part is that people accumulate what they consider a lot of money and they watch it disappear when a spouse needs long-term care. No one thinks it's going to happen to him or her. This is an opportunity to protect assets and protect the healthy spouse."

What pitfalls should advisors and clients look out for? "It's always important to use a local eldercare attorney in this process," Denton said, "because each state has different nuances. When there are any problems, it's usually when an advisor sells an ordinary immediate annuity to the couple and not a restricted one. With the new rules [from the Deficit Reduction Act of 2005] you have to name Medicaid as the beneficiary. The income has to be actuarially sound and payments must be made in equal amounts—no deferral or balloon payments."

"This can only be done as the ill spouse is entering or is already in the nursing home," he added. "It doesn't work to do in an advance. In the past, there were insurance agents who would say, 'Buy this immediate annuity because it will help you qualify for Medicaid in the future,' but that didn't work. But an eldercare attorney can do the planning in advance and have the restricted annuity start on the same day that the person goes into the nursing home. That's the best of all possible worlds."

Who sells Medicaid annuities? Only a handful of U.S. insurance companies are reported to sell Medicaid annuities. They include Allstate, Allianz Life, ELCO Mutual Life & Annuity, Genworth Financial, Nationwide and MetLife.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Medicare and Medicaid finance more than half of total nursing home care costs
Percentage of Total Nursing Home Spending
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Actual
Projected
Medicaid
Medicare
Other
Private insurance
Out-of-pocket
1967
1975
1983
1991
1999
2007
2015
2023
SOURCE: Centers for Medicare and Medicaid Services, National Health Expenditures, December 2014. Compiled by PGPF.
NOTE: Other includes government programs including CHIP, Departments of Defense and Veterans Affairs, and other third party payers.
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