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All About Death Claims for Medicaid Compliant Annuities

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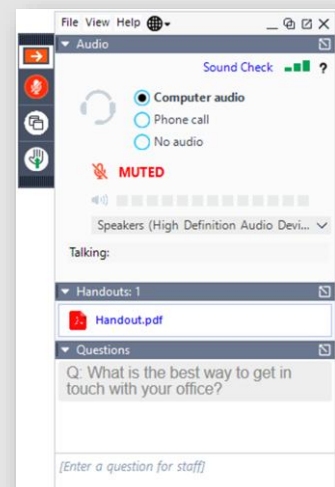
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Questions & Handouts

- Download **today's handouts** from the GoToWebinar toolbar.
- Don't forget to **complete the survey** at the end of the presentation!

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About Us

Krause Agency is a national wholesaler of insurance products tailored to the senior market. With a focus on asset preservation solutions, we provide products, training, and support to agents and advisors helping clients plan for retirement and long-term care.



30+
Years of
Experience



400+
Clients Helped
Monthly



1,300+
Active Agents

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Today's Goals

1. Define the Medicaid Compliant Annuity, its requirements, and its parties.

2. Discuss how the death claim process works for Medicaid Compliant Annuities.

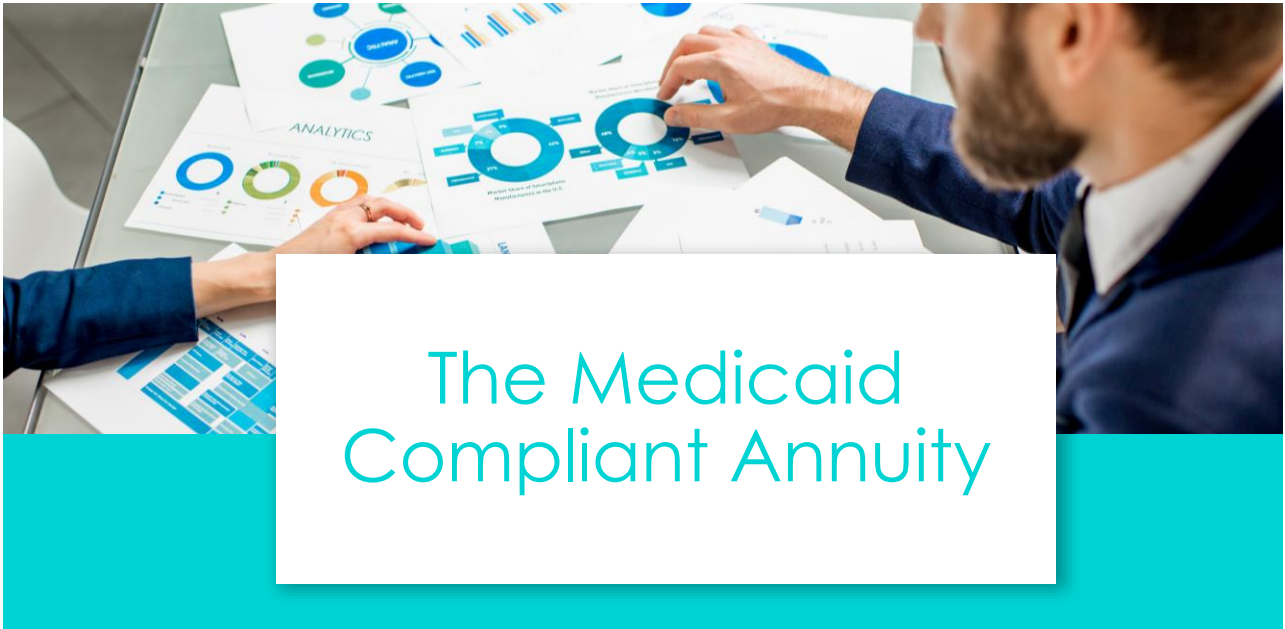
3. Explore strategies using the Medicaid Compliant Annuity and how they impact the death claim process.



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The Medicaid Compliant Annuity

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What is a Medicaid Compliant Annuity?

- A Medicaid Compliant Annuity (MCA) is an **income-only, single premium immediate annuity** designed to work within Medicaid's requirements.
- An MCA **converts excess countable assets into an income stream** with zero cash value.

MCA Product Highlights

- ✓ Available in 49 states plus D.C.
- ✓ Terms as low as two months
- ✓ Minimum investment of \$5,000

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How Does an MCA Work?

- An MCA **helps clients obtain financial assistance** for long-term care while protecting their assets.
- Strategies and best practices for using MCAs vary depending on the case facts.
- In order to be Medicaid compliant, an annuity must meet five main requirements.

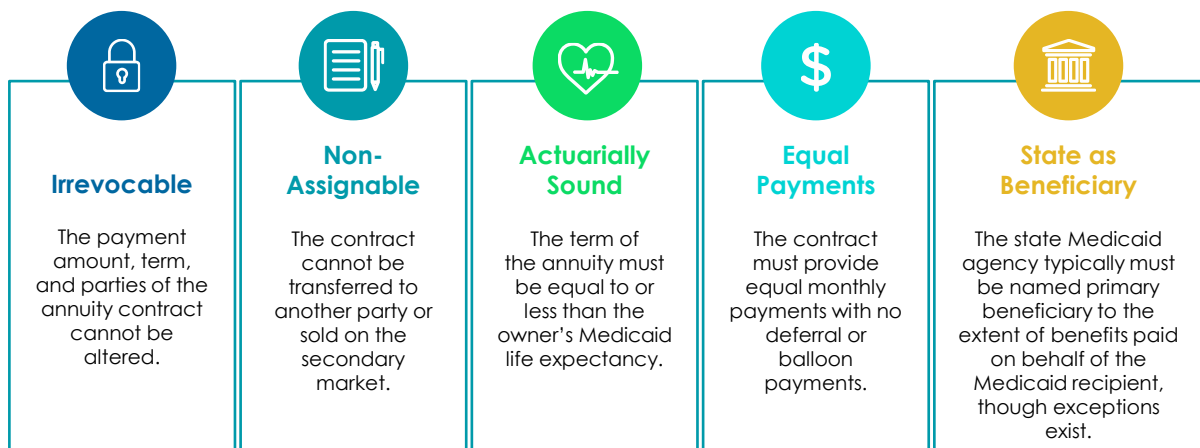


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Requirements of an MCA



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Parties to an MCA

Owner

The owner is the party who owns the contract and designates the other parties.

Annuitant

The annuitant is the party whose life the contract is based on. In most MCA cases, it's the same as the owner.

Payee

This is the party who receives the payments from the annuity.

Primary Beneficiary

This is the party who has the first right to any residual annuity benefits should the owner/annuitant pass away.

Contingent Beneficiary

This is the party who has the second right to any residual annuity benefits after the primary beneficiary.

What Happens When an MCA Client Passes Away?

- If the owner/annuitant passes away after the annuity has ended, **nothing will happen**.
 - *The contract terminates with the final payment.*
 - *No beneficiaries are entitled to any residual benefits under the policy.*
- If they pass away before the annuity has ended, **the death claim process** will be triggered.
 - *The primary beneficiary of the contract will have the opportunity to claim some or all of the remaining benefits.*
 - *In most cases, this is the **state Medicaid agency**.*

Beneficiary Payout Option: Lump Sum

- Many carriers allow the beneficiary(ies) to elect a **lump sum** payout of the remaining benefits.
- However, there is a **commutation** or discount applied to the remaining balance.
- The longer the remaining annuity term at the time of death, the larger the overall commutation will be.

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Beneficiary Payout Option: Continuing the Payments

- The other option is to continue receiving the **original scheduled annuity payments**.
- The beneficiary will create a new contract with the insurance company for the remaining payments.
 - *They will receive a new contract number.*
 - *They will be the owner and payee.*
 - *They will designate new beneficiaries.*



FAQ:

Can each beneficiary choose a different payout option?

Answer:

Yes! Our exclusive carriers can accommodate different options.

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State as Primary Beneficiary

- In most cases, the state Medicaid agency is designated the **primary beneficiary**.
- If the contract owner passes away before the term ends, the state Medicaid agency can recover the residual benefits only **up to the amount expended** on behalf of the Medicaid recipient.
- The reimbursement amount is calculated as follows:

Medicaid
Reimburse-
ment Rate

-

Medicaid
Co-Pay

=

Monthly
Claim
Amount

X

Time
Receiving
Benefits

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The Death Claim Process

1. Contact our office to **notify us of the death**. We'll inform you of any paperwork requirements at that time.
2. We'll contact the insurance company and, if the state Medicaid agency was the primary beneficiary, their office to **begin the claim calculation**.
3. The state Medicaid agency will state their claim amount to the insurance company.
4. Any residual funds will pass to the **contingent beneficiary(ies)**.



FAQ:

How long does the process take?

Answer:

On average, it takes anywhere from 30-120 days for the state to respond.

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What You Need to Begin the Process

- Policy owner's name
- Contract/policy number
- Date of death
- A copy or original copy of the death certificate (when available)
- Name of main contact for the claim
- Contact's email, phone number, and mailing address



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Traditional Community Spouse Case

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The Strategy

- The most common MCA planning strategy for a married couple consists of converting the couple's **spend-down amount into an MCA for the community spouse**.
- This strategy is also appropriate when the community spouse owns an IRA and uses the funds to purchase a tax-qualified MCA.
- Primary goals:
 - *Gain immediate eligibility for the institutionalized spouse.*
 - *Provide reliable monthly income to the community spouse, helping them to avoid spousal impoverishment.*



Owner/Annuitant:
The Community Spouse



Payee:
The Community Spouse



Primary Beneficiary:
The State Medicaid Agency



Contingent Beneficiary:
Children, Trust, Etc.

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Meet John and Linda

- John (81) has dementia and recently entered a nursing home.
- His wife, Linda (79), is concerned about the high cost of the facility and turns to their financial advisor for help.

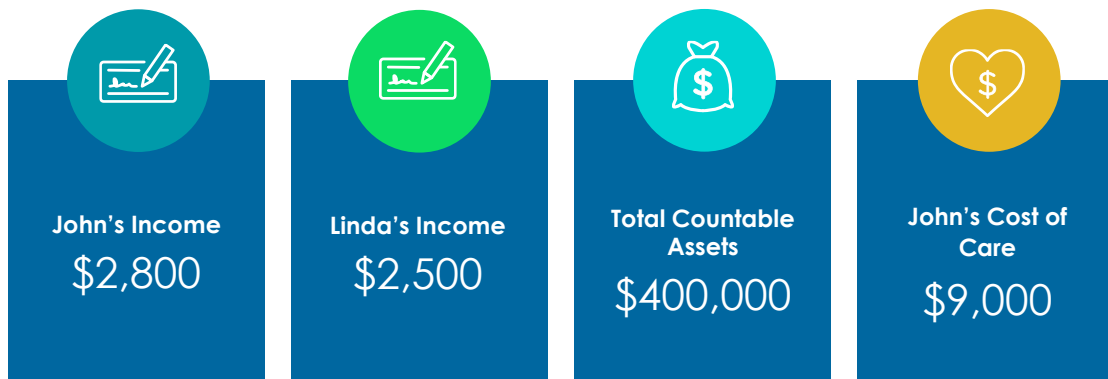


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Case Facts



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Calculate the Spend-Down Amount

- Linda can keep the family home, car, furniture, personal property, and **\$162,660** as her Community Spouse Resource Allowance.
 - To avoid the edge of eligibility, we recommend Linda keep no more than \$160,000.*
- John may keep **\$2,000** as his Individual Resource Allowance.

Total Countable Assets:	\$400,000
Linda's Allowance:	– \$160,000
John's Allowance:	– \$2,000
Spend-Down Amount:	\$238,000

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Determine the MCA Term

- The Medicaid program requires the annuity term be equal to or shorter than the owner's Medicaid life expectancy.
- At 79, Linda's Medicaid life expectancy is 121 months.
- Ideally, the community spouse will outlive the annuity term.

Using a Shorter Term

A shorter term may be appropriate when the community spouse or institutionalized spouse has a shorter anticipated life expectancy, or the annuity amount is small.

Using a Longer Term

A longer term may be appropriate when the community spouse is expected to live for some time, the annuity amount is large, or there are tax-qualified funds involved.

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Purchase the MCA

- In this case, Linda and her agent opt for a 48-month term.

Single Premium	Annuity Term	Monthly Payout	Total Payout
\$238,000	48 Months	\$4,980	\$239,040



Owner/Annuitant:
Linda



Payee:
Linda



Primary Beneficiary:
The State Medicaid Agency



Contingent Beneficiary:
Their Children

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Apply For Medicaid

- After purchasing the MCA, Linda's income increases from \$2,500 to \$7,480, and the couple's **excess assets are eliminated**.
- John is **immediately eligible** for Medicaid, and his co-pay is \$2,750.

Linda's Original Income:	\$2,500
MCA Income:	+ \$4,980
Linda's Total Income:	\$7,480

John's Income:	\$2,800
Personal Needs Allowance:	– \$50
Medicaid Co-Pay:	\$2,750

If John Passes Away Before the Annuity Ends...

- If John predeceases the annuity term, Linda will simply continue receiving the MCA payments for the remainder of the term.
- Because he is **not the owner or annuitant**, his passing has no impact on the annuity contract.

If Linda Passes Away Before the Annuity Ends...

- Because Linda is the owner/annuitant, if she were to predecease the annuity term the payments would stop, and the death claim process would begin.
- With the state Medicaid agency as primary beneficiary, they will be notified of the death and two possibilities may occur:

State Keeps the Claim Open

If John is still living, the state Medicaid agency may keep the claim open with the insurance company, as they are still accruing the balance owed on John's behalf.

State Calculates the Claim

If John is not living, the state Medicaid agency will calculate the amount owed to them and send a claim letter to the insurance company. Some states may do this while the institutionalized spouse is still living as well.



“Name on the Check Rule”

The Strategy

- While the traditional community spouse plan works for most married couple scenarios, it can pose issues if the institutionalized spouse owns an IRA.
- Since the account cannot be transferred to the community spouse without incurring tax consequences, the couple can instead use the **"Name on the Check Rule."**
- The institutionalized spouse purchases a tax-qualified MCA and designates the **community spouse as payee**.
- Primary goals:
 - *Eliminate the IRA as a countable asset without triggering tax consequences.*
 - *Divert the MCA's income to the community spouse so it does not become part of the institutionalized spouse's Medicaid co-pay.*



Owner/Annuitant:
The Institutionalized Spouse



Payee:
The Community Spouse



Primary Beneficiary:
The Community Spouse



Contingent Beneficiary:
The State Medicaid Agency

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Consider John and Linda Again

- From the previous example, we know the couple's spend-down amount is \$238,000.
- In this scenario, John owns an IRA equal to this amount and will use the "Name on the Check Rule" to spend it down.



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Purchase the MCA

- John purchases a tax-qualified MCA to payout over his life expectancy of 91 months (typically recommended when using this strategy).
- Linda is both the payee and the primary beneficiary.

Single Premium	Annuity Term	Monthly Payout	Total Payout
\$238,000	91 Months	\$2,650	\$241,150



Owner/Annuitant:

John



Payee:

Linda



Primary Beneficiary:

Linda



Contingent Beneficiary:

The State Medicaid Agency

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Apply For Medicaid

- After purchasing the MCA, Linda's income increases from \$2,500 to \$5,150, and the couple's **excess assets are eliminated**.
- John is **immediately eligible for Medicaid**, and his co-pay is \$2,750.

Linda's Original Income:	\$2,500
MCA Income:	+ \$2,650
Linda's Total Income:	\$5,150

John's Income:	\$2,800
Personal Needs Allowance:	– \$50
Medicaid Co-Pay:	\$2,750

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If Linda Passes Away Before the Annuity Ends...

- If Linda predeceases the annuity term, the contract **will continue to pay out** since John is the owner and annuitant.
- However, **John will be the new payee** of the contract, and that income will become part of his Medicaid co-pay.
- The state Medicaid agency will also move into the **primary beneficiary position**.
- If no tertiary beneficiary was named, the contingent beneficiary would then become John's estate.

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If John Passes Away Before the Annuity Ends...

And Linda has also already passed away

- If John predeceases the annuity and Linda has also already passed away, **the state Medicaid agency will recover** from the residual benefits based on the amount they expended on John's behalf.
- Any remaining benefits beyond this amount will pass to the **tertiary beneficiary or to John's estate**.

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If John Passes Away Before the Annuity Ends...

And Linda is still living

- If Linda is still living when John passes away, she is able to claim the residual annuity funds as the **primary beneficiary** ahead of the state Medicaid agency.
- She has the option to take a lump sum payout or continue the annuity payments under a new contract number with new beneficiaries.
- The state Medicaid agency **cannot recover** against the contract at all.

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