



AN INTRODUCTION TO MEDICAID COMPLIANT ANNUITIES

*Accelerate your client's Medicaid eligibility and
protect their assets with this revolutionary
spend-down tool.*



What Is a Medicaid Compliant Annuity?

A Medicaid Compliant Annuity (MCA) is a spend-down tool used in crisis planning. It's a single premium immediate annuity that converts excess funds into an income stream with no cash value. When properly structured, an MCA accelerates Medicaid eligibility, while protecting your client's assets.

How Does an MCA Fit in the Medicaid Program?

In order to qualify for Medicaid, applicants must meet strict financial requirements involving their income and assets. In fact, the main roadblock preventing seniors from qualifying for benefits is having too many countable assets. However, the income limitations are less restrictive, especially since the community spouse's income is not considered when determining eligibility.

Purchasing a Medicaid Compliant Annuity allows applicants to legally spend down their excess assets and convert them into an income stream, thus accelerating their eligibility for benefits. The MCA must meet specific requirements, one of which is to name the state Medicaid agency as primary beneficiary to the extent of benefits paid on behalf of the institutionalized individual.

Allow us to help you explore this innovative product and discover how you can use it to enhance your practice and help more senior clients get the benefits they deserve.

Why Work with Krause?

THE PIONEER OF THE MEDICAID COMPLIANT ANNUITY

Our President and CEO, Dale Krause, J.D., LL.M., created the very first short-term annuity product to help seniors qualify for Medicaid—the Medicaid Compliant Annuity. Through the decades, Dale has kept up with ever-changing Medicaid regulations to ensure elder law attorneys and their senior clients continue to have access to this groundbreaking product and the strategies needed to implement it.

The MCA is a revolutionary product, but it's even more powerful with Krause Financial standing behind it.



Requirements of a Medicaid Compliant Annuity

In order to be considered Medicaid compliant, an MCA must be irrevocable, non-assignable, and actuarially sound. It must also make equal monthly payments and name the state as a beneficiary.

REQUIREMENTS OF AN MCA



IRREVOCABLE

The payment amount, term, and parties of the annuity cannot be altered.



NON-ASSIGNABLE

The contract cannot be assigned to another party or sold on the secondary market.



ACTUARIALLY SOUND

The term of the annuity must be fixed and equal to or shorter than the owner's Medicaid life expectancy.



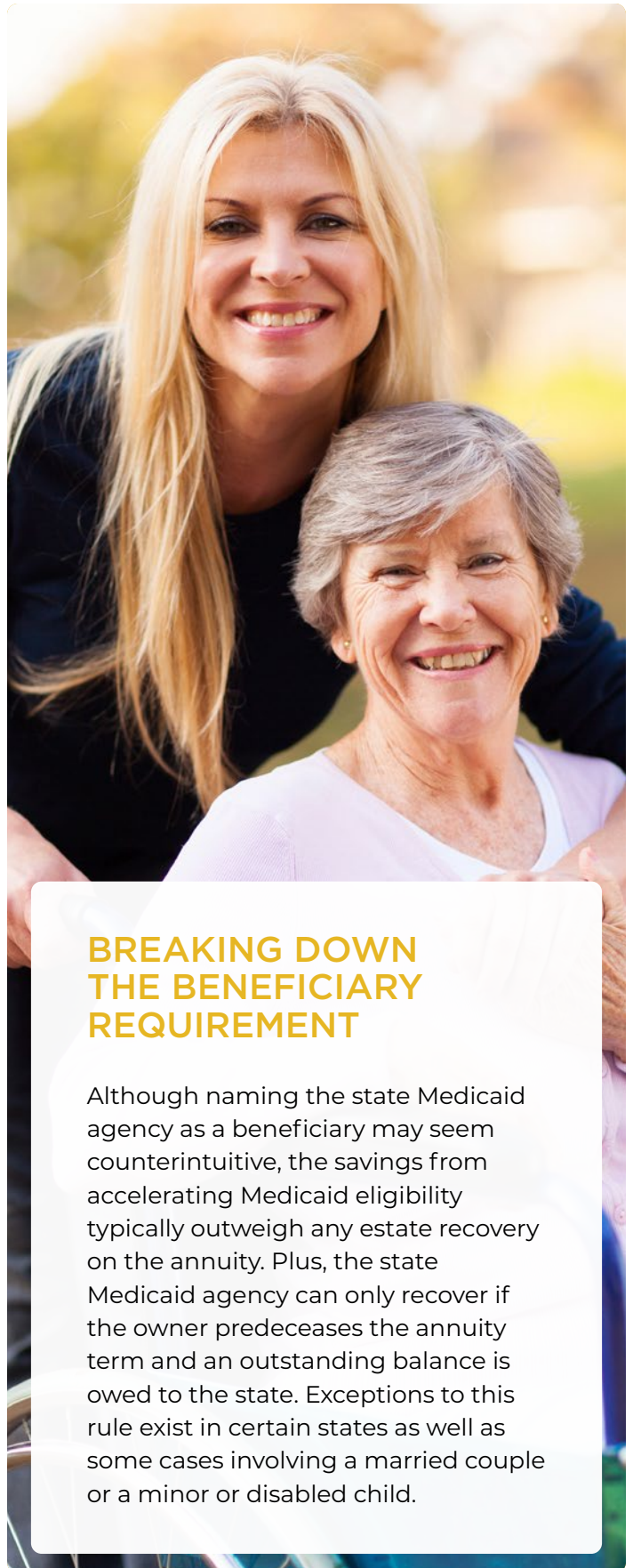
EQUAL PAYMENTS

The annuity must provide equal monthly payments with no deferral or balloon payments.



STATE AS BENEFICIARY

In most cases, the state Medicaid agency must be named primary death beneficiary to the extent of benefits paid on behalf of the institutionalized individual.



BREAKING DOWN THE BENEFICIARY REQUIREMENT

Although naming the state Medicaid agency as a beneficiary may seem counterintuitive, the savings from accelerating Medicaid eligibility typically outweigh any estate recovery on the annuity. Plus, the state Medicaid agency can only recover if the owner predeceases the annuity term and an outstanding balance is owed to the state. Exceptions to this rule exist in certain states as well as some cases involving a married couple or a minor or disabled child.

In most cases, MCA contracts consist of five potential parties:



OWNER

The owner is the individual who purchases the annuity. For single clients, they are the owner. For married couples, the owner may be either spouse, depending on the MCA strategy being used.



ANNUITANT

Since MCAs require a fixed term, the annuitant does not typically play an important role. In almost every case, the owner and annuitant are the same person.



PAYEE

The payee of an MCA is the individual who receives the contract payments. In most cases, the owner, annuitant, and payee are the same person, except when using the “Name on the Check Rule” strategy.



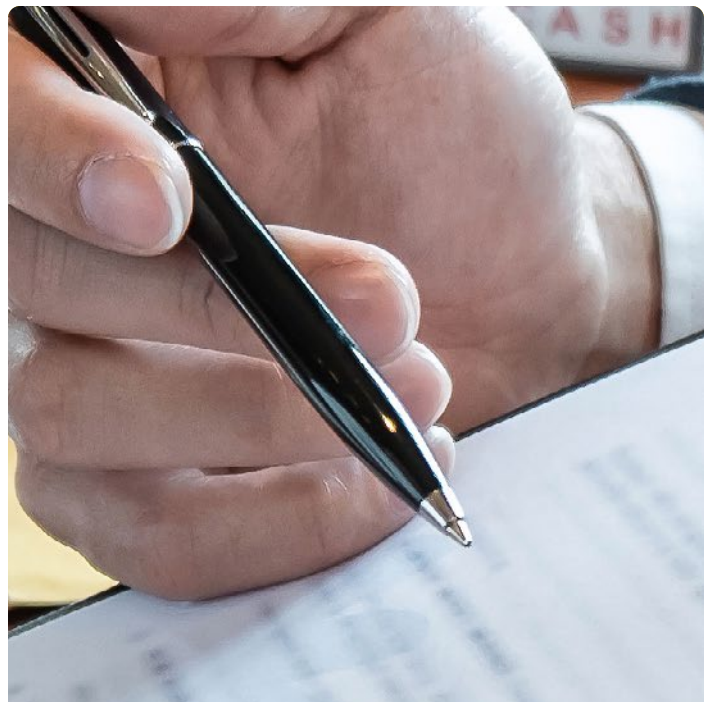
PRIMARY BENEFICIARY

The primary beneficiary is the party that receives the remaining contract payments or a lump sum of the benefits if the MCA owner predeceases the term. In most MCA cases, this is the state Medicaid agency.



CONTINGENT BENEFICIARY

The contingent beneficiary is the party that receives any remaining contract benefits after the primary beneficiary has made its claim. This is typically the spouse, children, or a trust belonging to the owner.



MCAS VS. PROMISSORY NOTES

If your state allows promissory notes to be used in Medicaid planning, you may be wondering why you should use an MCA instead. In many cases, especially when dealing with cash assets, an MCA is simply more practical. Plus, MCAs are controlled by an insurance carrier rather than a loved one, so they put less responsibility and stress on that person. Promissory notes can also be problematic if the designated individual undergoes a disruptive event, such as death, bankruptcy, or divorce, which may subject the funds to seizure by another party. Finally, an MCA requires much less long-term management by the attorney than a promissory note, making it easier on you as well.



Funding a Medicaid Compliant Annuity

A Medicaid Compliant Annuity can be funded using either non-qualified funds or tax-qualified funds, such as an IRA or a tax-deferred annuity. The process for funding an MCA varies depending on the type of funds being used.

It's common for seniors to own both non-qualified and tax-qualified funds. If your client has to spend down both types of assets, they must purchase two separate annuities.

NON-QUALIFIED ASSETS

To purchase an MCA with non-qualified funds, your client can liquidate these assets as needed and simply include a check for the single premium amount with the annuity application. Common non-qualified assets include:

- ✓ Cash and bank account funds
- ✓ Investments, stocks, and bonds
- ✓ Additional homes, vehicles, and land

TAX-QUALIFIED FUNDS

Individual Retirement Account (IRA)

Your client has two options to transfer an IRA to an MCA:

TRUSTEE-TO-TRUSTEE TRANSFER

The account owner submits authorization paperwork for the transfer along with the MCA application, and the insurance company issuing the MCA obtains the funds directly from the custodian company.

- ✓ Transfer Time: **4-6 weeks**
- ✓ Number of Transfers: **Unlimited**

60-DAY ROLLOVER

The account owner initiates a complete liquidation of the account with the IRA custodian company. When they receive the liquidation check, they have 60 days to reinvest the funds into a tax-qualified MCA to avoid immediate tax consequences.

- ✓ Transfer Time: **5-7 business days**
- ✓ Number of Transfers: **One every 365 days**

Tax-Deferred Annuity

To transfer a tax-deferred annuity to an MCA, your client can conduct a Section 1035 Tax-Free Exchange. Similar to a Trustee-to-Trustee Transfer for an IRA, the contract owner submits the transfer paperwork along with the MCA application, and the MCA insurance company obtains the funds directly from the current custodian.



WHAT ABOUT NON-COMPLIANT IMMEDIATE ANNUITIES?

If your client owns an existing immediate annuity that is revocable and assignable but does not meet the other MCA requirements, it can typically be sold on the secondary annuity market. In these cases, a third party purchases the annuity for the fair market value of the remaining payments. Then, your client receives a lump sum of cash for the contract, which they can then use to purchase a Medicaid Compliant Annuity.

To learn more about selling annuities on the secondary market, contact our office.

MCA PRODUCT FEATURES

- ✓ Available in 49 states plus D.C.
- ✓ Terms as low as two months
- ✓ A-rated carriers available
- ✓ Minimum investment of \$5,000
- ✓ Maximum issue age of 100

Choosing an MCA Carrier

When it comes to choosing specialized planning products for your clients, you want to make sure you're getting the best. Fortunately, we work with several dependable insurance carriers, including multiple that are exclusive to us and companies with A.M. Best ratings as high as A+.



NATIONAL MEDICAID COMPLIANT ANNUITY CARRIERS

- 3** carriers with products not available anywhere else
- 2** carriers with an A.M. Best rating of A- or higher
- 3** carriers with annuity terms as low as two months

CAN ANY INSURANCE CARRIER SELL AN MCA?

In short, no. Since the Medicaid Compliant Annuity is such a highly specialized product, it is not available through just any insurance carrier. That's why our exclusive wholesaler relationships provide such a great benefit to your clients in crisis.



OUR INSURANCE CARRIERS

Medicaid Compliant Annuities are at the heart of our business, and we want to achieve the best possible result for your clients based on their unique circumstances. We are proud to partner with these MCA carriers to offer an advantageous product to your senior clients.



ELCO MUTUAL
LIFE & ANNUITY



Nationwide



**Unity
Financial**



When Is an MCA Appropriate?

A Medicaid Compliant Annuity may be right for your client if they:

- ✓ Reside in a Medicaid-approved facility
- ✓ Have exhausted Medicare or long-term care insurance benefits
- ✓ Are paying out of pocket for care
- ✓ Have excess countable assets

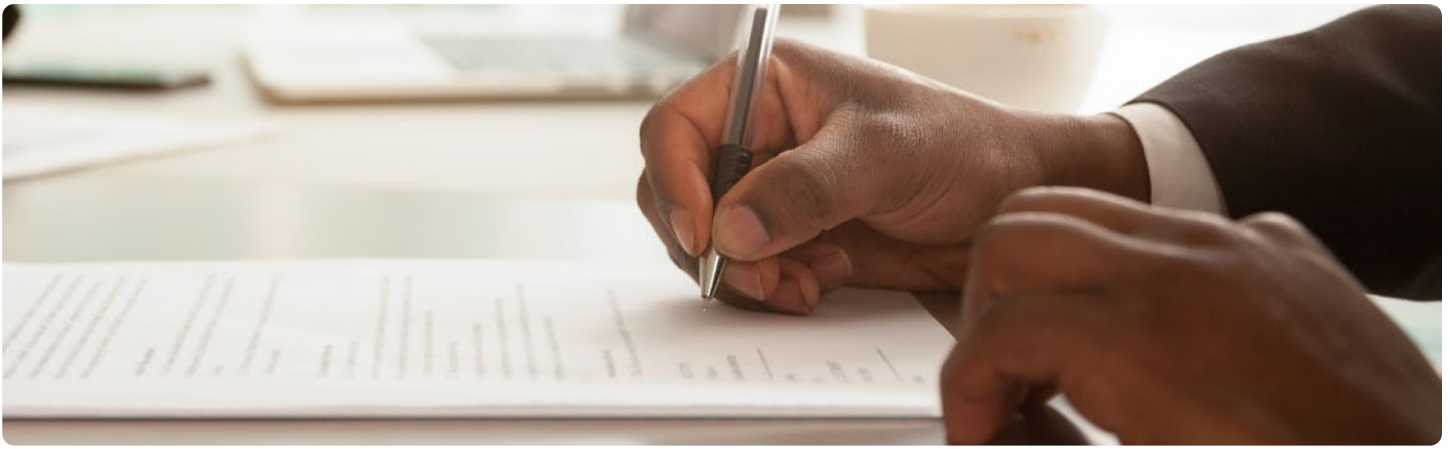
When your senior client enters a nursing home without having done any pre-planning for their care, they are probably looking for a way to pay the bill without depleting their entire live savings.

An MCA is a quick and easy way to do both.

TIMING THE MCA PURCHASE

Purchasing a Medicaid Compliant Annuity is typically the last step in the Medicaid spend-down plan. Fortunately, the process of buying an MCA, from the initial quote to receiving the contract in hand, can be completed in as little as seven days.

**Get your client an MCA
in as little as 7 days.**



Our MCA Process



YOU PROVIDE THE CASE FACTS.

To begin, simply provide some details about the case, such as the client's marital status, health status, state of residence, assets, and income.



WE PROVIDE A CUSTOM ANALYSIS.

Next, we'll present you with a customized financial analysis of the case, a comprehensive proposal using an MCA, and an overview of the projected economic results.



YOUR CLIENT COMPLETES THE ANNUITY APPLICATION.

Once you and your client are ready to proceed with the plan, we can walk you through the necessary annuity application paperwork.



WE PROCESS THE PAPERWORK.

Then, we'll conduct a review to ensure the application is accurate and compliant with your state's regulations before submitting it to the insurance company.



WE RECEIVE AND SEND YOU THE CONTRACT.

Within 5 to 10 business days (in most cases), we'll receive the annuity contract from the carrier and immediately forward it to your office.



YOUR CLIENT GETS THE BENEFITS THEY DESERVE.

Once you receive the contract, your client is one step closer to Medicaid eligibility. You get a win for your client, and they achieve peace of mind as they age.

MCA Strategies for a Married Couple

COMMUNITY SPOUSE MCA

The most common strategy for a married couple is purchasing an MCA for the community spouse.

- ✓ After determining how many assets the couple can keep, any excess countable assets—the spend-down amount—are funded into an MCA for the community spouse.
- ✓ The MCA payments will go to the community spouse, allowing them to continue their lifestyle at home.



INSTITUTIONALIZED SPOUSE MCA

In some cases, such as if the community spouse has low enough income to qualify for an income shift from the institutionalized spouse, another strategy involves purchasing an MCA for the institutionalized spouse

- ✓ After determining how many assets the couple can keep, the spend-down amount is funded into an MCA for the institutionalized spouse.
- ✓ The MCA payments will go to the institutionalized spouse as income, but a portion or all of their income will shift to the community spouse under the Monthly Maintenance Needs Allowance rules.

“NAME ON THE CHECK RULE”

If the institutionalized spouse owns an IRA that is considered countable, you may be able to use the “Name on the Check Rule” strategy.*

- ✓ The institutionalized spouse's IRA is transferred to an MCA that is owned by them but made payable to the community spouse.
- ✓ The MCA payments will go to the community spouse, since their name is on the check, allowing them to continue their lifestyle in the community.

**The success of the “Name on the Check Rule” strategy varies by state, so get in touch with us before moving forward.*

MCA Strategies for a Single Person

GIFT/MCA PLAN

The most common strategy for a single person is gifting a portion of assets to a loved one and funding the rest into an MCA.

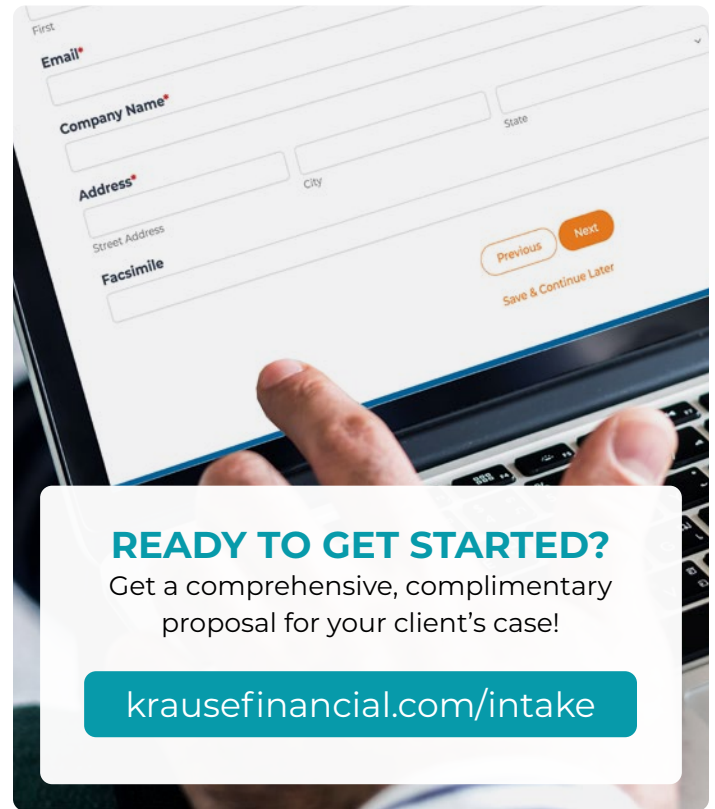
- ✓ Rather than fund the entire spend-down amount into an MCA, the individual divests about half of their assets and incurs a penalty period of ineligibility.
- ✓ Then, they use their remaining assets to purchase an MCA that will help them pay for their care during the penalty period.



STANDALONE PLAN

If the Gift/MCA plan is not viable or if the individual is not expected to live long, another strategy is the Standalone plan.

- ✓ The individual funds their entire spend-down amount into an MCA. They immediately qualify for benefits, and the MCA payments become part of their Medicaid co-pay.
- ✓ Upon their passing, after the state Medicaid agency makes their claim, the contingent beneficiary receives the remaining amount.



krausefinancial.com | **p.** (866) 605-7437 | **f.** (866) 605-7438 | info@krausefinancial.com

1234 Enterprise Drive, De Pere, WI 54115