

QUALIFIED INCOME TRUSTS AND MEDICAID PLANNING

Learn how Qualified Income Trusts fit in the Medicaid planning process and discover how to establish one for your crisis planning clients.

QIT



What is a Qualified Income Trust?

A Qualified Income Trust (QIT), also known as a Miller Trust, is an irrevocable, income-only trust that holds the income of a Medicaid recipient and disburses funds for allowable expenses. The trust functions as a flow-through entity for an individual's total income or any income exceeding the income cap. Income funneled through the QIT may include pension, Social Security, other income sources, and any accumulated interest.



IN ORDER TO BE VALID, A QIT MUST:

- ✓ Be irrevocable
- ✓ Have a trustee to manage the trust
- ✓ Not contain any accessible resources



PARTIES TO A QIT



SETTLER/GRANTOR

The individual who sets up the trust, typically the Medicaid recipient or an authorized representative



TRUSTEE

The individual who manages the funds within the trust and pays for allowable expenses from the trust



LIFETIME BENEFICIARY

The Medicaid recipient



PRIMARY BENEFICIARY

The state Medicaid agency

Upon the recipient's passing, the state Medicaid agency may recover against the remaining funds in the trust to the extent of benefits expended on behalf of the Medicaid recipient.



SECONDARY BENEFICIARY

An individual or entity chosen by the Medicaid recipient

Upon the recipient's passing, any remaining funds after the state Medicaid agency has made its claim will pass to the secondary beneficiary as chosen by the recipient and named on the trust.

When to Establish a QIT

In order to qualify for Medicaid, applicants must meet specific financial and non-financial criteria, including asset and income limitations. When it comes to income, the institutionalized individual must have income below a specific limit in order to qualify. Most states use the private pay rate of the facility, while other states use the Medicaid Reimbursement Rate or a different limit.

Some states impose an additional income restriction, known as the income cap. That's where QITs come in. These states are commonly referred to as 1634 states or income cap states. If a Medicaid applicant in one of these states receives monthly income that exceeds the income cap, their excess income must pass through a Qualified Income Trust in order to qualify them for Medicaid.



A QIT IS NECESSARY FOR INDIVIDUALS WHO:



Are applying for Medicaid benefits (not the community spouse)



Reside in an income cap state



Have income exceeding the income cap



The Income Cap

The income cap typically updates each year and is calculated using 300% of the Federal SSI Benefit Rate (FBR). The resulting figure generally acts as the income cap, though some states may use a different figure. In 2023, the income cap in most of these states is \$2,742.

Any income exceeding the income cap must be funneled through a QIT.

INCOME LIMIT VS. INCOME CAP

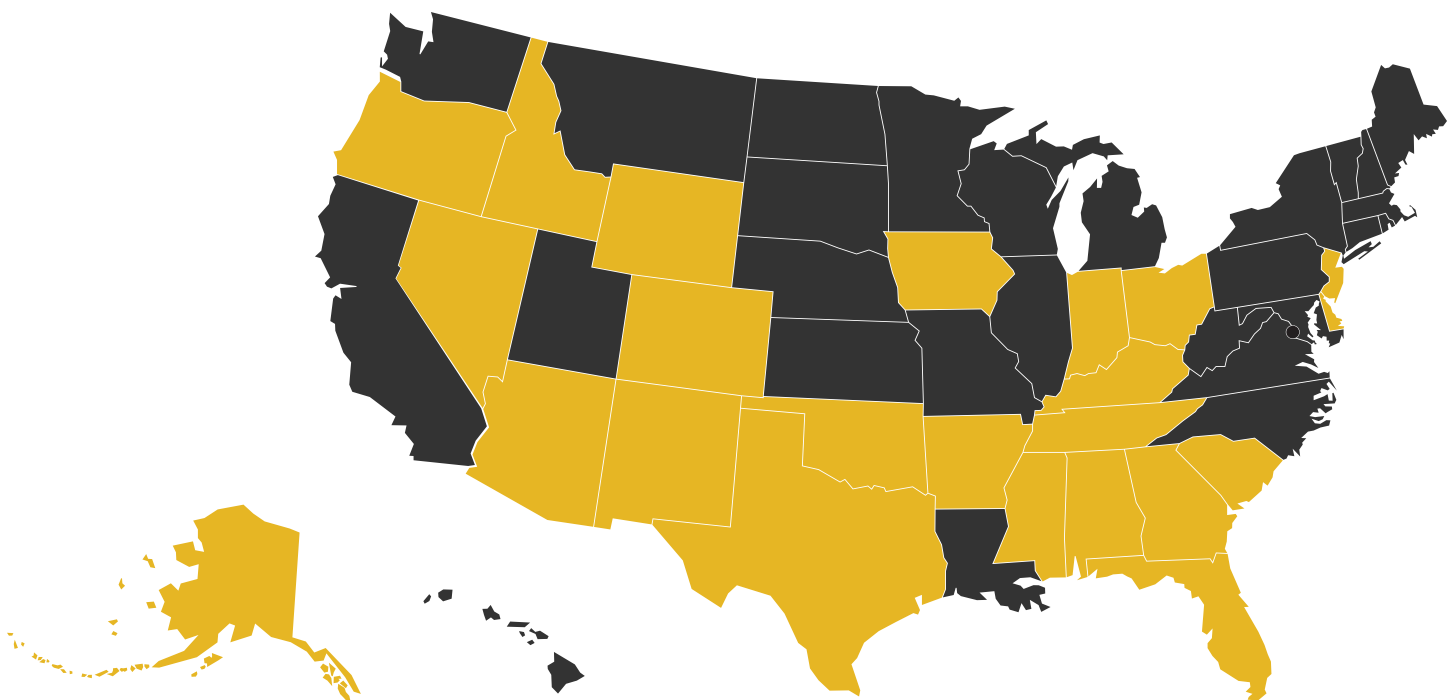
The income cap is separate from the state-specific income limit. All states impose a hard income limit for the Medicaid recipient. Again, this is typically the private pay rate of the facility, the Medicaid Reimbursement Rate, or a different limit. If a Medicaid applicant has income above the limit, they will not qualify for benefits.

The income cap, on the other hand, only applies in certain states and simply requires establishing a Qualified Income Trust for the income to flow through. Applicants with income above the income cap can still qualify for benefits.

Income Cap States

Income cap states include Alabama, Alaska, Arizona, Colorado, Delaware, Florida, Georgia, Idaho, Indiana, Iowa, Kentucky, Mississippi, Nevada, New Jersey, New Mexico, Ohio, Oklahoma, Oregon, South Carolina, South Dakota, Tennessee, Texas, and Wyoming.

In these states, Medicaid applicants with income exceeding the income cap must establish a Qualified Income Trust in order to be considered eligible for Medicaid.



■ QIT Required

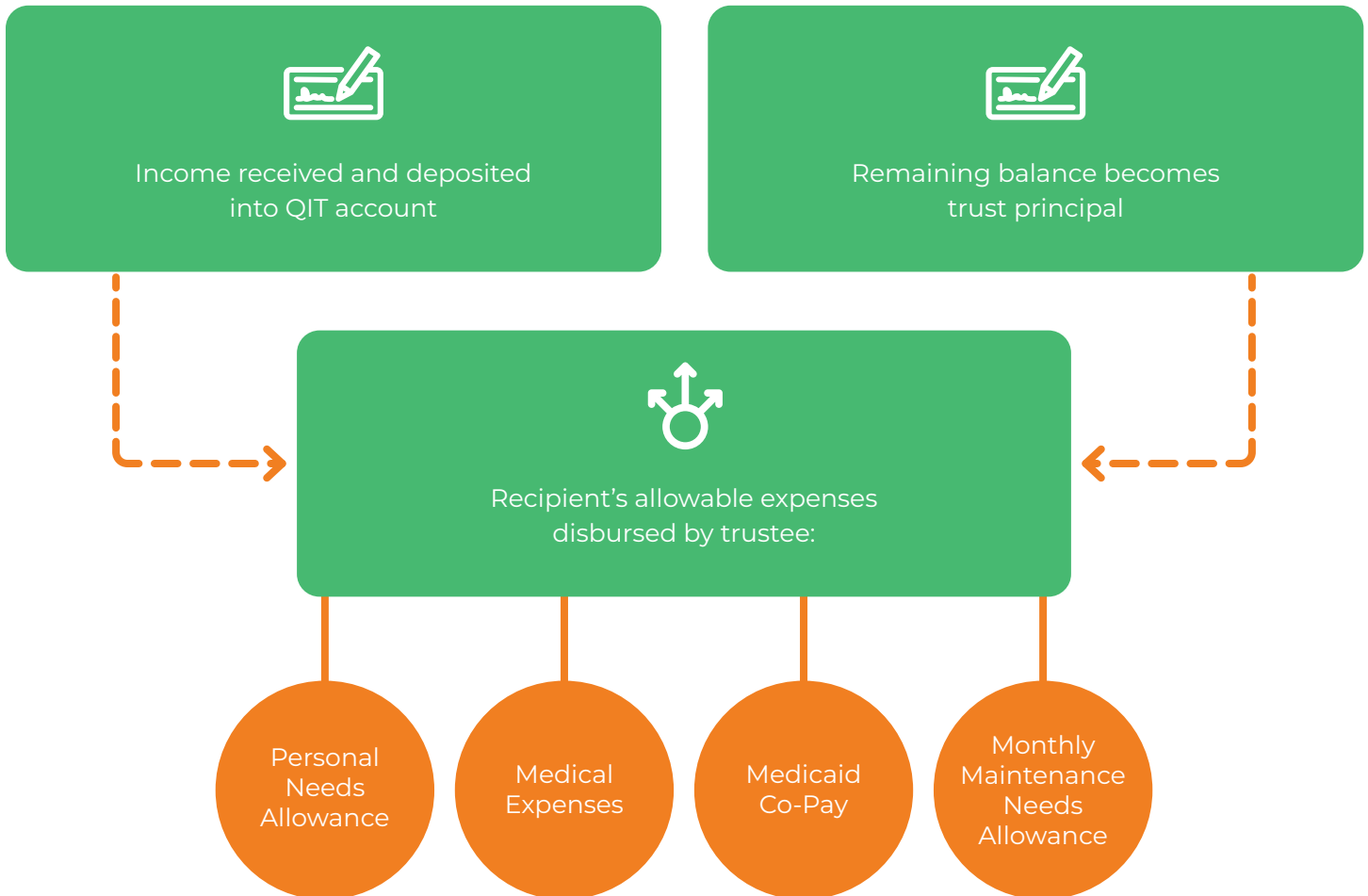
■ QIT Not Required

How Does a QIT Work?

Each month, the Medicaid recipient's income is deposited into the Qualified Income Trust. The trustee then disburses the funds to the grantor to pay for allowable expenses, such as the Personal Needs Allowance, Medicaid co-pay, certain medical deductions, and any applicable income shift under the Monthly Maintenance Needs Allowance rules. The QIT should only hold the income of the Medicaid recipient and should not be used to shelter excess resources nor include the income of the community spouse.

Most states require only the portion of income that exceeds the income cap to flow through the trust. However, your client may want to consider the more conservative option of funneling their entire monthly income through the QIT in order to avoid any eligibility complications.

QIT PROCESS



How to Establish a QIT

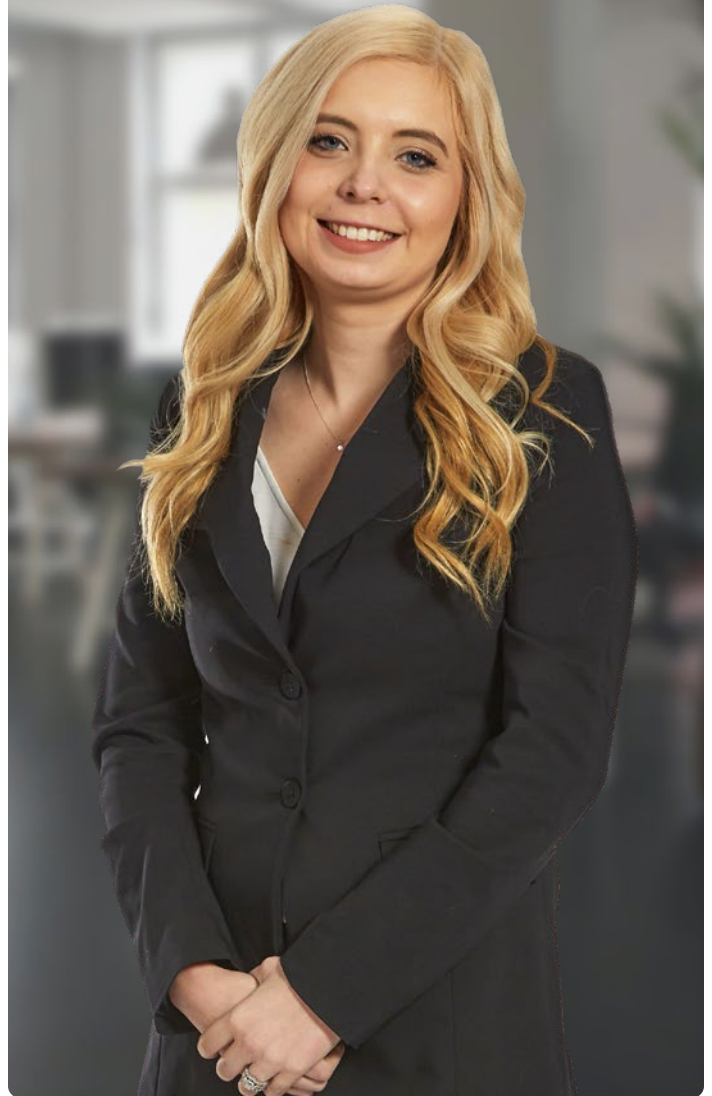
- 1 Draft and execute all necessary documentation for the Qualified Income Trust.
- 2 Establish a checking account for the trust.
 - ✓ Title the checking account in line with the name of the QIT (e.g., Qualified Income Trust of [recipient's name]).
 - ✓ Use the recipient's social security number for the account to ensure the income is taxed appropriately. Refer to IRS ruling 21.7.13.5.8.3 for more information.
- 3 Submit the following to the state Medicaid agency:
 - ✓ Copies of the trust documentation
 - ✓ The QIT checking account information
 - ✓ Proof that arrangements have been made to deposit the income into the trust each month

Failure to submit these items may result in a Medicaid denial or loss of eligibility.

SCHEDULE A CALL

Schedule a call with one of our advisors to discuss your case in more detail.

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