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Welcome!

We will begin today's webinar shortly.

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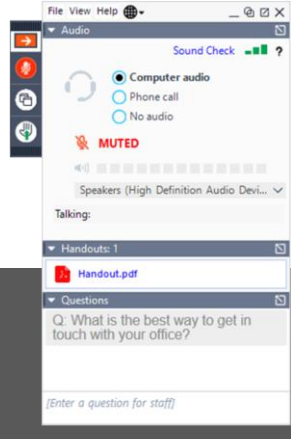
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1

Questions & Handouts

Don't forget to complete the survey at the end of today's presentation!



2

Gift or Standalone:
How to Plan for a Single Client Using MCAs



Presented by:
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April 21, 2026



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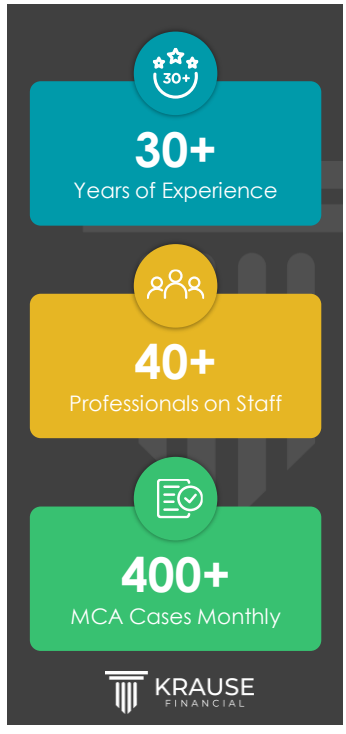
3

About Us

Krause Financial is an attorney-led firm that provides asset preservation solutions for estate planning and elder law attorneys and their clients. Using our specialized insurance products, resources, and support, we help attorneys streamline the process of advising clients planning for long-term care.

Our Mission:

> Empower legal professionals to navigate long-term care planning with confidence.



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4

Today's Goals

REVIEW the rules surrounding Medicaid eligibility.

IDENTIFY the crisis planning options available for single clients using an MCA.

EXPLORE two case studies showcasing the MCA strategies for a single person.



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A Review of Medicaid's Rules



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Non-Financial Requirements

- In order to meet Medicaid's non-financial eligibility requirements, an individual must:
  - ✓ *Be a U.S. citizen or qualified non-citizen*
  - ✓ *Be age 65 or older, blind, or disabled*
  - ✓ *Reside in a Medicaid-approved facility*



Individual Resource Allowance

Institutionalized Individual

Allowed to keep **$2,000** in countable assets in most states

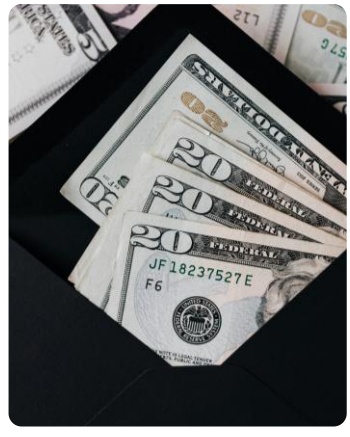
Exceptions (2026):
- California – $130,000
- Connecticut - $1,600
- District of Colombia - $4,000
- Illinois - $17,500
- Maine - $2,000 plus $8,000 in liquid resources
- Maryland - $2,500
- Michigan - $9,950
- Minnesota - $3,000
- Mississippi - $4,000
- Missouri - $6,068.80
- Nebraska - $4,000
- New Hampshire - $2,500
- New York - $33,038
- North Dakota - $3,000
- Pennsylvania - $2,400
- Rhode Island - $4,000

Income Requirements:
Institutionalized Individual

- In most states, the institutionalized person's income from all earned and unearned sources must be **less than the private pay rate** of the facility.
- Some states may require a Qualified Income Trust for income exceeding $2,982/month (in 2026).
- The institutionalized person's income becomes their **Medicaid co-pay**, minus their monthly Personal Needs Allowance, certain medical deductions, and an applicable shift under the MMNA rules.

Divesting Assets

- Applicants **can't simply give away assets** in order to reduce their countable assets.
- This is commonly referred to as a **divestment**.
- Divestments include:
  - *Giving assets away for no compensation*
  - *Selling assets for less than fair market value*



The Lookback Period

- The state Medicaid agency will **look back over the previous 60 months** from the time of the Medicaid application to see if the applicant made any divestments.
- If divestments have been made, the applicant is **subject to a period of Medicaid ineligibility**.



The Penalty Period

- The penalty period is the **period of Medicaid ineligibility the applicant is subject to** if they made divestments within the lookback period.
- The penalty period is determined by dividing the total amount gifted within the lookback period by the *Divestment Penalty Divisor*.
- The Divestment Penalty Divisor **varies by state** and is generally based on the average cost of care in that state.
- A penalty of one month or one day equals the amount of the Divestment Penalty Divisor.



Otherwise Eligible

- The penalty period cannot begin to run until the Medicaid applicant is **otherwise eligible for benefits** except for the penalty period.
- In order to be otherwise eligible the applicant must be:
  - *Medically eligible for benefits – living in a nursing home or needing nursing home level of care*
  - *Financially eligible for benefits – have assets below the individual resource amount*

Exempt Transfer:
Purchasing a Medicaid Compliant Annuity

- A Medicaid Compliant Annuity (MCA) is a single premium immediate annuity with added restrictions to meet Medicaid's requirements.
- An MCA **converts excess countable assets into an income stream** with zero cash value.
- In order for the annuity to be complaint it **must meet five requirements**.



Requirements of an MCA

IRREVOCABLE

The payment amount, term, and parties cannot be altered.

NON-ASSIGNABLE

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

ACTUARIALLY SOUND

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

EQUAL PAYMENTS

The contract 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 beneficiary to the extent of benefits paid on behalf of the Medicaid recipient.

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MCA Strategies for Single Clients



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Option 1: Gift/MCA Plan

- The applicant **gifts approximately half of their countable resources** and forces a penalty period.
- Then, they fund their remaining resources into an **MCA structured over the length of the penalty period** that provides income.
- Using their original income and the MCA payments, the individual **privately pays for their care** during the penalty period.
- After the penalty period and MCA term end, they **become eligible for Medicaid benefits**.

Option 2: Standalone Plan

- The applicant funds their **entire spend-down amount into an MCA** and gains immediate Medicaid eligibility.
- The MCA payments become **part of their Medicaid co-pay**.
- Upon the individual's passing, the state Medicaid agency collects against the **amount paid on their behalf**, and the remaining MCA funds go to the individual's contingent beneficiaries.
- The benefit lies in **paying the Medicaid Reimbursement Rate** as opposed to the private pay rate.

Comparing the Strategies

Gift/MCA Plan

- The purpose is to create an immediate and guaranteed wealth transfer.
- The individual will incur a penalty period of ineligibility.
- Medicaid eligibility is still accelerated compared to doing nothing.

Standalone Plan

- The purpose is to create a wealth transfer after the individual's passing.
- The individual will gain immediate Medicaid eligibility.
- They will experience savings compared to continuing to pay the private rate.

Let's see these strategies in action.

Case Studies





Meet Jimmy

Jimmy (81) is a single person. His family can no longer care for him at home, so they decide to move him into a nursing home. To avoid losing Jimmy's life savings paying for care, his family turns to a local elder law attorney for help.

Case Facts

Jimmy's Income
$2,000

Total Countable Assets
$145,000

Divestment Penalty Divisor
$7,500

Cost of Care
$9,000

What If He Does Nothing?

- Since Jimmy's cost of care is $9,000 per month, he risks depleting his entire life savings in as little as **16 months**.
- Should this occur, he'll have nothing left to pass on to his loved ones.



Calculate the Spend-Down Amount

- Jimmy can keep his personal effects and **$2,000** as his Individual Resource Allowance.
- His resulting spend-down amount is **$143,000**.



Option 1: Gift/MCA Plan

- Jimmy can use the Gift/MCA plan to accelerate his Medicaid eligibility while ensuring a wealth transfer to his kids.
- He will divest less than half of his countable assets while using the other portion to purchase an MCA.
- **When is the Gift/MCA Plan appropriate?**
  - *The individual is expected to outlive the length of the plan.*
  - *They want to ensure an immediate wealth transfer to their heirs.*
  - *Their state allows for short-term MCAs to be used.*

Calculate the Burn Rate

Cost of Care:	$9,000
Jimmy's Income:	– $2,000
Income Shortfall:	$7,000
Divestment Penalty Divisor:	+ $7,500
Burn Rate:	**$14,500**

- This means that for every one month of the plan, Jimmy will "burn" through $14,500.
  - *Approximately $7,500 will be consumed by way of the gift.*
  - *Approximately $7,000 will be consumed by way of the MCA.*

Determine the Length of the Plan

- The Burn Rate determines how long the penalty period and the MCA term will be.
- To calculate this, divide the spend-down amount by the Burn Rate.



Determine the Gift Amount



The gift amount of $75,000 will result in Jimmy being ineligible for Medicaid for 10 months.

Purchase the MCA

After Jimmy makes the wealth transfer, his spend-down amount of $143,000 is reduced by the gift amount of $75,000, leaving $68,000 for him to fund into the MCA.

Single Premium	Annuity Term	Monthly Payout	Total Payout
$68,000	10 Months	$6,810	$68,100

Owner/Payee: Jimmy

Primary Beneficiary: The State of Medicaid Agency to the extent of benefits paid on behalf of Jimmy

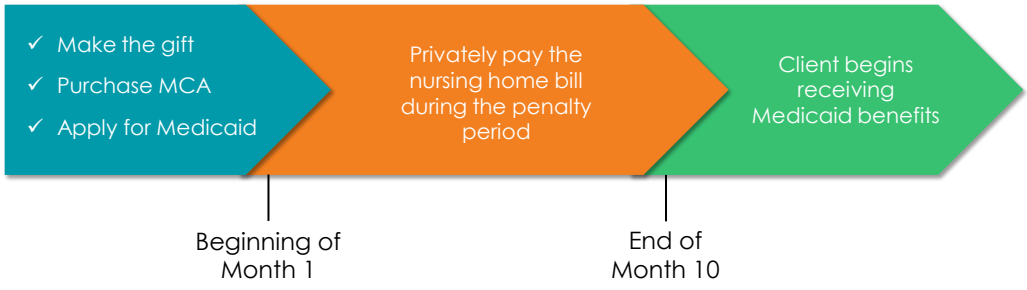
Contingent Beneficiary: His children

Apply for Medicaid

- After making the gift and purchasing the MCA, Jimmy is considered **"otherwise eligible"** for benefits. After he applies for Medicaid, his penalty period begins.
- During this time, he will use his Social Security income and his MCA income to pay the nursing home bill.
- Since his cost of care is $9,000, Jimmy will have a small shortfall to pay to the nursing home each month, which he can cover using his Individual Resource Allowance or with some help from his kids.

Jimmy's Income: $2,000 + **MCA Income:** $6,810 = **Total Income:** $8,810

Gift/MCA Plan Timeline





Economic Results

- After the 10-month plan, Jimmy's monthly income reverts to $2,000.
- After accounting for his $50 Personal Needs Allowance, his monthly Medicaid co-pay equals $1,950, **saving him $7,050/month** compared to his original cost of care of $9,000.
- Jimmy is able to make a **guaranteed wealth transfer of $75,000** to his children plus what is leftover of his individual resource allowance.



Additional Considerations

- If Jimmy were to predecease the 10-month plan, he would not have gained or lost any economic benefit, as he would have been privately paying for his care during this time.
- If Jimmy's cost of care increases or he has unexpected medical expenses, his children may have to use some of the gifted funds to help cover these costs.

Option 2: Standalone Plan

- Jimmy can also use the Standalone MCA Plan to accelerate his Medicaid eligibility.
- He will fund his entire spend-down amount of $143,000 into an MCA in order achieve immediate eligibility.
- He will have the opportunity to create a wealth transfer to his children upon his passing.
- **When is the Standalone Plan appropriate?**
  - *The individual has limited longevity.*
  - *Their state has rules limiting the use of the Gift/MCA Plan.*

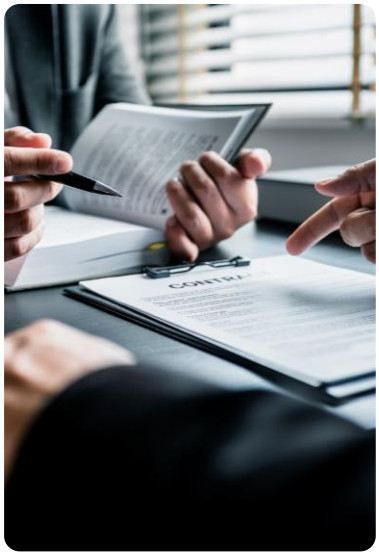
Case Facts

Jimmy's Income
$2,000

Spend-Down Amount
$143,000

Reimbursement Rate
$6,500

Cost of Care
$9,000



Determine the MCA Term

- Since Jimmy is 81 years old, his Medicaid life expectancy is 7.6 years, or 91.2 months. This means the maximum MCA term Jimmy can use is **91 months**.
- In order to minimize the income produced by the MCA, Jimmy will use the full 91-month term for his annuity.

Purchase the MCA

Single Premium	Annuity Term	Monthly Payout	Total Payout
$143,000	91 Months	$1,580	$143,780

Owner/Payee: Jimmy

Primary Beneficiary: The State of Medicaid Agency to the extent of benefits paid on behalf of Jimmy

Contingent Beneficiary: His children

Apply for Medicaid

- With the MCA payments and Jimmy's Social Security income, his total income is now $3,580.
- After purchasing the MCA and eliminating his excess resources, Jimmy is immediately eligible for Medicaid.

Jimmy's Income: $2,000 + **MCA Income:** $1,580 = **Total Income:** $3,580

Calculate the Medicaid Co-Pay

After accounting for Jimmy's $50 Personal Needs Allowance, his monthly Medicaid co-pay equals $3,530.

Jimmy's Total Income:	-	Personal Needs Allowance:	=	Medicaid Co-Pay:
$3,580		$50		$3,530

Determine Medicaid's Monthly Expenditure

- The state Medicaid agency only pays up to the Medicaid Reimbursement Rate of the facility, which is typically much less than the private pay rate.
- For each month Jimmy receives benefits, the state Medicaid agency is **expending $2,970** on his behalf.

Medicaid Reimbursement Rate:	-	Medicaid Co-Pay:	=	Medicaid's Monthly Expenditure:
$6,500		$3,530		$2,970

10 Months Later…

- Jimmy passes away after receiving care for 10 months.
- The state Medicaid agency is entitled to recover against his MCA up to the amount expended on his behalf.

Medicaid's Monthly Expenditure:		Time in Care:		Medicaid's Total Expenditure:
$2,970	x	10 months	=	$29,700

Determine the Residual Annuity Balance

After the state Medicaid agency collects its claim of $29,700, the residual annuity balance of $97,500 goes to the contingent beneficiaries, Jimmy's children.

MCA Premium:		Total Payments Made:		Medicaid's Total Expenditure:		Residual Annuity Balance:
$143,000	-	$15,800 *$1,580 x 10*	-	$29,700	=	$97,500



Economic Results

- Jimmy gains immediate Medicaid eligibility.
- While in care, he realizes a **monthly savings of $2,500**. This represents the difference between the Medicaid reimbursement rate and his private pay rate.
- After his passing, Jimmy is able to make a **wealth transfer of $97,500** plus what is left of his individual resource allowance to his children.

Additional Considerations

- The longer Jimmy resides in the facility, the less his contingent beneficiaries will inherit after his passing.
- The economic benefit of this plan can never be guaranteed. It depends on the individual's longevity and the claim by the state Medicaid agency.
- The payout options available to the contingent beneficiaries may vary depending on the MCA insurance carrier.

Comparing the Strategies

	Gift/MCA Plan	Standalone Plan
MCA Term	10 months	91 months
Monthly MCA Payout	$6,810	$1,580
Medicaid Co-Pay	$1,950	$3,530
Monthly Savings	$7,050 (after 10 months)	$2,500
Timing of Wealth Transfer	Immediately	Upon Jimmy's death

Total Wealth Transfers

	Gift/MCA Plan	Standalone Plan
If Jimmy passes away after 10 months…	**$75,000** Economic benefit after the 10-month penalty period has passed	**$97,500** Experienced much greater savings than doing nothing or the Gift/MCA Plan
After 15 months…	**$75,000** Experienced an economic benefit compared to doing nothing	**$74,750** Experienced an economic benefit, slightly less than the Gift/MCA Plan
After 18 months…	**$75,000** Experienced an economic benefit compared to doing nothing	**$61,100** Experienced an economic benefit compared to doing nothing *The more time Jimmy spends in care, the less the wealth transfer to his children.*

Which Plan Should You Choose?

The appropriate strategy varies depending on the specific situation, but some items to consider include:

Risk Aversion

Does the risk of the Standalone Plan make the concern the client?

If so, consider the Gift/MCA Plan.

Client Longevity

Is the client expected to pass away within the next year?

If so, consider the Standalone Plan.

State Rules

Does your state have rules that limit using Gift/MCA Plan?

If so, consider the Standalone Plan.

Questions




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49