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Medicaid Planning Basics

Medicaid Eligibility: State-Specific Asset and Income Requirements

Medicaid is a joint federal- and state-sponsored program designed to provide medical assistance to low-income individuals. Eligibility requirements vary by state, so it is essential to carefully review your state's requirements. Generally, eligible individuals include those who are over 65 years old, disabled, or blind.

Medicaid is the largest payer of nursing home costs in the United States and often serves as a last resort for people with no other means to finance long-term care.

Although states set their own rules, federal minimum standards and guidelines apply nationwide. Beyond medical and functional criteria, Medicaid eligibility is contingent on financial thresholds for assets and monthly income. This can be complex, because certain assets—such as your primary residency—and a portion of income may be exempt.

Leveraging Medicaid Planning to Meet State Requirements

Your state may only count income or assets legally available to you when determining Medicaid eligibility. This creates an opportunity for strategic Medicaid planning. Certain approaches can accelerate eligibility while preserving resources for your family.

Potential Goals of Medicaid Planning

- Exchange countable assets for exempt assets
- Preserve assets for loved ones
- Provide for a healthy spouse, if married

Goal 1: Exchange Countable Assets for Exempt Assets

Countable assets are accessible to the state for Medicaid purposes. The total value of countable assets, in conjunction with countable income, determines eligibility for Medicaid. Federal guidelines require each state to compile a list of exempt assets. Typically, this includes the family home, prepaid burial plots and contracts, one automobile, and term life insurance.

It may be possible to rearrange your finances to convert countable assets into exempt assets, making them inaccessible to the state. Examples include:

- Paying off the mortgage on your family home
- Making home improvements and repairs
- Paying off your debts
- Purchasing a car for your healthy spouse
- Prepaying burial expenses

Goal 2: Preserving Assets for Loved Ones

One way to preserve assets for your loved ones is to use an *irrevocable trust*. Key considerations include:

- **Permanent transfers.** Once assets are placed in an irrevocable trust, you cannot change the terms, beneficiaries, or asset titling.
- **Medicaid exclusion.** Property placed in an irrevocable trust is excluded for Medicaid purposes.
- **Advance planning required.** The trust must be established and funded for a specific period before it becomes an effective Medicaid planning tool.
- **Fixed rules.** The conditions set at the time of creation remain in place permanently.

Goal 3: Providing for Your Healthy Spouse

Medicaid rules for married couples pool assets for eligibility purposes. The healthy spouse is entitled to keep a spousal resource allowance, generally equal to half of the couple’s assets. One option is to use jointly owned, countable assets to purchase a single-premium immediate annuity for the healthy spouse. This converts assets into an income stream, which each spouse may keep individually.

For annuities purchased on or after February 8, 2006, the state must be named as the remainder beneficiary after the spouse or a minor or disabled child.

Beware of Medicaid Planning Risks

Medicaid planning can be valuable, but it is not without risks or some drawbacks. Common concerns include look-back periods, possible disqualification for Medicaid, and estate recovery.

When applying for Medicaid, the state reviews your finances, and those of your spouse, for a period before your application date. This review, known as the *look-back period*, typically spans 60 months for transfers of countable assets for less than fair market value. Transfers made during this period often result in a waiting period before benefits begin.

For example, giving your home to your children one year before entering a nursing home could make you ineligible for Medicaid for a significant time, as determined by a state formula.

Medicaid planning also varies in effectiveness by state. Federal law encourages states to recover Medicaid payments made on your behalf. This may include placing a lien on your property while you are alive or seeking reimbursement from your estate after you die.

Consult an attorney with Medicaid planning experience and consult the laws in your state before taking action.

Source:

www.medicaid.gov/

Resource by the CAPTRUST wealth planning team

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