Medicaid Matters

Helping Illinois seniors and their families make informed decisions about long term care.

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Medicaid Planning and Taxes: Although Medicaid allows asset transfers of the primary residence and other assets*, some of those transfers may have tax consequences. Medicaid Matters can't help but wonder if more planning should be done with regards to taking distributions from retirement accounts in order to maximize asset protection of other accounts. (See article below.)

Medicaid Matters welcomes feedback via e-mail: medicaid.matters@att.net in order to better help people make informed decisions.

Upcoming Seminars:

Good News/Bad News – the seminar begins with an overview of Legal, Financial, and Medical options (Legal documents, Medicare, Long Term Care Insurance, Reverse Mortgage, Medicaid Planning, In-Home Care, Adult Day Service, etc.). Followed by a story about Carol and Sam (a fictional married couple) and how they put together a plan that allows Carol to receive care in her home; postponing or even preventing the need for care in a nursing home. (Tuesday: 4/13/2010 – 1:30 p.m. @ Smith Activity Center, 5120 Galitz, Skokie, IL)

Medicaid Matters welcomes the opportunity to help everyone make informed decisions about long term care. If you would like Medicaid Matters to present to your organization, please contact Wendy @ (847) 757-8259.

Financial Planning and Medicaid:

The Community Spouse Asset Allowance (CSAA), also known in some circles as PSI (Prevention of Spousal Impoverishment), allows up to $109,560.00* in countable assets to be transferred to the (community) spouse not receiving Medicaid. The transfer of assets, in essence, allows the ill or frail spouse to have fewer assets in their own name and qualify for Medicaid. The assets are not only protected for the community spouse, but also for the Medicaid recipient who may need some goods and services that Medicaid does not cover (i.e. the spouse use "his/her" assets for the benefit of his/her spouse). However, transferring an IRA or other retirement accounts from the Medicaid recipient to the community spouse is not as simple as changing the name on the account. In order to "transfer" an IRA or 401K plan out of the Medicaid recipient's name, the account has to be liquidated, which often triggers a tax on the "distribution".

Many seniors take as small a distribution from their retirement accounts as possible each year due to the tax consequences, and because of tax rules that allow a surviving spouse to "inherit" an IRA.** Medicaid Matters wonders if some seniors should be meeting with a financial planner, accountant, or tax advisor to find out if they should be using more of their retirement savings (i.e. taking a larger annual distribution) for living expenses, especially if deductions or credits could offset the taxes of those distributions. Perhaps that way, if one spouse does need Medicaid, there will be more resources held in non-retirement-type accounts such as savings, checking, stocks, investments, etc. that can actually be transferred without having to liquidate the asset, the assets will be protected for the benefit of the community spouse, and the tax consequence won't be quite as severe.

Editorial Question: Under the Deficit Reduction Act 2005, a State must be named as the primary beneficiary or as second beneficiary after the community spouse, in order for certain annuities to be considered a non-countable asset. Why not allow a similar rule for IRAs, especially for couples who have less than the Community Spouse Maintenance Allowance (monthly income allowance) and could benefit from deferring distributions to the community spouse?

**The Community Spouse Asset Allowance (CSAA) allows transfers of up to $109,560.00 to the community spouse. In some cases the CSAA can be increased by an annuity method on appeal, or by a court order. **Surviving spouses, who inherit IRAs, can treat IRAs as their own, or roll it over into their own IRA, and minimize tax consequences. (See IRS Publication 590 – Individual Retirement Arrangements (IRAs)-www.IRS.gov.)*

Disclaimer: Medicaid Matters is not a financial planner, accountant, tax advisor, or an attorney; and strongly recommends consulting with financial planner, accountant, tax advisor, or elder law attorney regarding the transfer of assets, and the pros and cons of taking distributions from retirement accounts.

Medicaid Matters - (847) 757-8259 – email: medicaid.matters@att.net –website: www.medicaidmatters.weebly.com