Medicaid and Life Insurance: Can Your Past Financial Planning Jeopardize Your Eligibility?

Most people are aware that, in order to qualify for Medicaid benefits an applicant must meet strict state-imposed income and resource restrictions. Luckily, when determining which resources are available, many assets are exempt from counting towards the Medicaid resource limit. Some examples include:

1. Principal place of residence, lot, and sale proceeds if another residence is purchased within 3 months of the sale.
2. Household goods and personal effects up to a specified amount.
3. Engagement and wedding rings.
4. Automobile used for necessary transportation, such as for transportation to employment or medical treatments.
5. Automobile not used for the above purposes, up to a specified value.
6. Business property and life insurance policies up to a specified amount.

Unfortunately, many of these excluded resources are limited in value to a relatively small amount. This holds true for life insurance policies, an asset which many individuals own. Although each state may have differing resource limits, in general, to be an excluded asset, life insurance must not exceed $1,500 in death benefits. If the death benefit exceeds this amount, the policy's cash value is seen as an available asset, and may serve to disqualify the Medicaid participant.

For example, assume Samuel, a Medicaid applicant, owns a life insurance policy with a death benefit of $2,000 and a cash value of $700. The policy's death benefit exceeds the life insurance excluded resource limit by $500. Therefore, the cash surrender value of life insurance policy valued at $700 is seen as an available resource to Samuel. Depending upon Samuel's other available resources; this may push him beyond the Medicaid allowable limits, thereby preventing Samuel from receiving government assistance.

This particularly becomes a problem for certain older Medicaid applicants. It is not unusual for older individuals to own several small insurance policies purchased 20 or more years ago, only to have later forgotten about the policies. Although the policies may be small in death benefit value, once accumulated, the policies are oftentimes large enough to disqualify a Medicaid applicant.

How is this possible? Assume Margaret, a Medicaid applicant, purchased three different life insurance policies 20 years ago. The policies are all relatively small in death benefit value: Policy A has a death benefit of $500; Policy B has a death benefit of $500; and Policy C has a death benefit of $750. Although individually each policy fits well within the $1,500 resource limit to have the life insurance excluded, when aggregated, Margaret's policies surpass the limit by $250. Therefore, Medicaid will determine the cash value of each policy and the total amount will be considered as an available resource to Margaret.

So what can be done if you're in the above situation? Be informed. Meet with a qualified estate planning attorney who specializes in Medicaid planning, such as those at MHK before applying for government assistance. This will allow you to get a clear picture of your chances for receiving assistance. Failing to do so could jeopardize your chances at qualifying for valuable aid when you need it most.

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