

Life Insurance and the Medicaid Application

To qualify for Medicaid in Wisconsin, an individual can have only \$2,000 or less in “countable” assets. Certain life insurance policies are considered “countable” assets. Others are “exempt” and will not affect the Medicaid application. Understanding the type of life insurance policy you own and its value, both during your lifetime and when you die, will help you best arrange your assets for Medicaid qualification.

Type of Policy

Term Life

The premium for a term life policy pays for insurance only for a certain period of time. Whether you pay monthly or annually, the policy only pays out if you die within the term. If you stop paying, the insurance ends. There is no accumulated cash value. Therefore, term insurance is not a “countable” asset for Medicaid purposes. There are three common ways that people acquire term insurance:

- You may have purchased term insurance for yourself either paying by check when the bill arrives or on a monthly basis with direct withdrawal from your bank account or your pension check.
- The company you worked for may provide you with a term policy or “death benefit” as a part of your retirement package.
- Banks, auto clubs, social organizations or other groups may provide term insurance as a benefit of membership. These policies are most often “accidental death” policies that pay nothing unless you die of an “accident” as defined by the policy.

Whole Life

Whole life policies combine both a death benefit and a savings benefit. A part of each premium you pay goes to accumulate a “cash value”. When the cash value reaches a certain level the policy is said to be “paid up”. At that point, the accumulated cash value and the interest it earns are sufficient to pay the premiums so you don’t have to. You may also choose to “cash in” the policy or take a loan against it. Doing so will eliminate or reduce the amount that your beneficiaries would receive at your death. To the extent that the Medicaid applicant can cash in the policy, it is considered a “countable asset”.

Thus, a whole life policy will have a “face value”- the original amount of the policy, a “cash value”- the amount accumulated in the “savings” portion of the policy and a “death value”- the face value plus accumulated cash. The death value is the amount the policy will pay out when you die. The cash value is what the insurance company would pay if you cancelled the policy today.

What Does Medicaid Consider “Countable”?

- Term life insurance cannot be cashed out and thus has no value that is “countable”.
- A Medicaid applicant may own one small whole life policy. A policy with a face value of \$1,500 or less is considered “exempt” and will not affect the Medicaid application regardless of the cash value.
- With the exception of the one “exempt” policy, the cash value of any whole life policy is countable. Thus, a policy with a face value of \$5,000 and a cash value of \$3,500 would disqualify an applicant from receiving Medicaid since the cash value is more than \$2,000 maximum limit.

What to Do?

In order to qualify for Medicaid, the applicant must reduce his countable assets to \$2,000 or below. There are a number of ways to deal with the “countable” value of whole life insurance.

1. Cash in the Policy: You can request that the insurance company send you the cash value of the policy. When the check arrives, spend down excess assets. This will eliminate the death benefit and cancel the policy.
2. Take a loan against the policy: This will reduce both the cash value and the death value, but will keep the policy in effect. You will need to continue paying premiums to keep the policy in effect. This may increase the cash value in the future which may disqualify you from Medicaid. Thus, you will need to monitor each year the increase in cash value and see Attorney Tim Crawford if your countable assets get near \$2,000.
3. Transfer ownership of the policy to someone else:
 - Spouse - Married applicants can transfer ownership to a community spouse. The cash value would then be part of the community spouse’s resource allowance.
 - Funeral Home - The applicant can transfer ownership to a funeral home to pay for an irrevocable burial plan which is an exempt asset.

Change the Beneficiary

Whether the life insurance policy is countable or exempt, whether it now belongs to the Medicaid applicant or someone else, consider changing the beneficiaries of the policies. Policies with no living beneficiary named may be payable to the Medicaid Applicant’s estate and subject to Medicaid Recovery and thus, the death benefit check would end up going to the state of Wisconsin to pay back the government loan that was given to you to

pay your nursing home care costs. A new owner of the policy will most probably want to name himself or herself as beneficiary. The applicant's spouse should also change the beneficiary on his or her own life insurance policies to name someone other than the Medicaid applicant, since any death benefits the applicant would receive would be countable.

The handling of life insurance policies is just one facet of Medicaid qualification. Consult with Attorney Tim Crawford to design and implement a personalized comprehensive plan for Medicaid qualification.

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