Annuities Help Get Medicaid to Pay for Nursing Homes

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City, Mo., which popularized the annuities in 1998.

GE's position is unusual because, as a big seller of long-term-care insurance, it has spoken out against Medicaid asset-depletion and backed an association that is dedicated to stamping it out. Yet GE's First Colony Life Insurance Co. unit enables some customers to make their annuities nontransferrable, an essential move in qualifying for Medicaid.

GE spokesman Mike Kachel notes that GE's materials don't mention Medicaid. He says the company isn't encouraging anyone to shelter money and has little control over how the annuities are pitched because it leaves their sale to independent marketing firms and agents. "Deliberate asset depletion is not part of [our] product strategy," Mr. Kachel says.

Asset depletion for Medicaid reasons took off in the 1980s, when some lawyers built a brisk trade in sheltering money through trusts and ownership of expensive cars. Congress cracked down in 1993, lengthening the number of years administrators would "look back" at applicants' finances to see if they had transferred their assets to their heirs or a trust. In 1996, Congress even authorized prison time for some seniors who abused the Medicaid rules.

'Granny Goes to Jail'

the first to tweak annuities to make them Medicaid-friendly. Then, after he moved to a marketing agency, he persuaded the Austin office of Americo's Great Southern Life Insurance Co, to create a Medicaid annuity in 1998. Other insurers and marketing agencies soon jumped aboard. Insurers created the annuities, while the marketing agencies drew up brochures and trained agents to give seminars for the public.

'You May Cancel ...'

A brochure for one Americo annuity promises "protection from nursing home costs" by making assets "unavailable when an application for Medicaid is being made." One from a St. Paul Cos. unit called Fidelity & Guaranty Life Insurance Co. goes further: If told your annuity is "not allowable for purposes of 'spending down' assets to gain Medicaid eligibility," it advises customers, "you may cancel your contract and receive a full refund ... ." St. Paul is in the process of selling this unit to London-based Old Mutual PLC.

For insurers, this was a way to expand a sleepy product line often used to structure lottery prizes and court settlements. Unlike annuities that are tied to the stock market (the "variable" ones), these are "single-premium immediate annuities" for "term certain": one pre-

care insurance or couldn't qualify for it or couldn't afford it," says James Anderson, an Americo senior vice president. Dale Krause, an annuity broker in Wisconsin, says he has done cases "right around the million-dollar mark." But "it's the people that took 50 years to save a couple hundred thousand that really are devastated," he says.

The annuities are best suited to married couples, who under Medicaid rules can shelter part but not all of their assets. The rules say that if a person entering a nursing home transfers assets to his or her spouse, this spouse can keep half of the couple's total assets, up to about $87,000, plus a house and car, without barring the frailer partner from getting Medicaid.

But if the healthier spouse pours the couple's money into an annuity, it is possible to protect all of it. The annuity is set up to return all the money, in monthly payments, to the spouse who remains at home. It deprives the couple of assets but gives the healthier spouse income.

Occasional Pangs

Fredric Zinger of Zephyrhills, Fla., cared for his wife, who has a heart problem, for nearly two years before putting her in a nursing home. In 1998, the retired trucker turned nearly $200,000 over to an insurance company...

"Disturb them" with lines like "the American dream just went down the tubes," he advised.

Seniors without a spouse to transfer assets to are a tougher challenge, but some insurers are tackling it. The tactic: a balloon annuity. It pays out a tiny monthly check and then returns most of the money in the final month. The buyer thus gets rid of assets and stays below income limits for a Medicaid recipient, which range from $1,500 to $2,000 a month, depending on the state.

Hoping for a Miracle

Ed Remisiewicz arranged for his 84-year-old aunt, a widow with no children, to buy balloon annuities after she entered a nursing home in New Port Richey. They totaled $336,000, according to his insurance agency. "We knew her money would be gone if she stayed a couple of years in the nursing home," says Mr. Remisiewicz's wife, Annette. "We want to preserve her money in case she comes home—in case of a miracle."

Annuities can work for the single elderly even without a balloon, although not quite as well. Suppose an elderly man's annuity provides $1,400 a month of income. He qualifies for Medicaid, but has to turn the whole $1,400 over to the nursing home to pay part of its cost. So what's the