Meet Jack – VA Benefit Planning

Jack is a patient in an assisted living facility that does not accept Medicaid. Jack has a wife, Sharon, at home who needs his help, but his costs at the assisted living facility are about $5,000 a month.

Jack and Sharon have a health income. Each has income of about $2,000 per month, but Sharon needs all of her income to pay for household expenses. To help with the Assisted Living costs, Jack and Sharon want to apply for the VA Aid & Attendance benefit, which would give them an extra $2,220 per month in tax-free income to help pay.

Jack and Sharon have too many assets to qualify for the benefit. They have $75,000 in liquid assets and another $150,000 in Sharon's IRA. Sharon can't gift the IRA because it would cause a large taxable event. If they gifted the cash, they would still have too many resources to qualify for the benefit.

To reduce the net worth without a major taxable event, Sharon can purchase a HarborMaster Flex SPIA. She can transfer or rollover her IRA to the SPIA, where it would not be counted as an asset, but only as an income.

Because the VA benefit is tied to the Income for VA Purposes (known as the "IVAP"), their income cannot exceed the cost of care or else they would not qualify for the benefit. Because the cost of care is only $5,000 per month, the additional income generated from the SPIA must be less than $1,000 to qualify for the maximum VA benefit award. Because Sharon is 80, a level benefit SPIA would product too much income if set to follow the Medicaid life expectancy table.

To keep the total income below the IVAP, the IRA can be split between two HarborMaster Flex SPIA contracts. The first Flex contract can be an equal payment contract that pays out enough money per year to satisfy the Required Minimum Distribution (RMD) for both contracts. The second Flex contract can use a balloon structure to pay out a small monthly payment, with a large balloon payment later down the road.

By using the Medicaid life expectancy table, both Flex contracts can use their one-time option to become irrevocable if Medicaid eligibility is later needed for nursing home care as Jack's health gets worse. Because Medicaid requires DRA-compliant SPIAs to have substantially equal payments, the balloon Flex can also be converted into a level benefit at the same time the contract is made fully irrevocable.

The net result will be to add over $26,000 in tax-free VA benefits to the family's income to help offset the high costs of Jack's care and prepare the family for long-term care Medicaid eligibility should the need arise without exposing Sharon to a massive spend down or tax bill.