

Medi-Cal Program Guide (MPG) Letter # 702

June 17, 2010

Subject **TERM AND ENDOWMENT LIFE INSURANCE**

Effective Date Upon Receipt

Reference ACWDL 08-02

Purpose To inform staff of changes to the treatment of life insurance for the purpose of determining the Medi-Cal property reserve.

Background The MPG currently states that all term life insurance is exempt. The reason for the exemption is that term life insurance policies do not have cash surrender values (CSV). Currently whole life policies are exempt as property as long as the face value of the combined policies is less than \$1,500. If the face value of all combined policies is over \$1,500, the CSV of the policies must be counted as part of the property reserve.

Endowment Life Insurance Contracts (ELIC) are contracts in which the buyer has the issuing company hold a set amount of money for a designated period of time to be paid to the buyer if they are still alive or the buyer's designated beneficiary.

Changes Term Life Insurance

There are now some term life insurance plans with CSV. The face value of the term policies with CSV must be added to the face value of all other insurance plans when determining the Medi-Cal property reserve. The CSV of the policies will become part of the property reserve if the total face value of the term and whole life policies exceeds \$1,500.

ELIC

The Department of Health Care Services has determined that an ELIC does not meet the definition of insurance and will be treated like trusts

and must be considered available property for the purpose of determining Medi-Cal.

Automation Impact

Until such time as the CalWIN project releases a workaround or updates CalWIN functionality, when entering a Term Life Policy with a CSV, workers must enter the property on the 'display life insurance summary' screen as whole life and make a note in the narrative.

When entering an ELIC into CalWIN, workers must enter it as a trust on the 'display individual trust fund summary' screen and note in the narrative.

Forms Impact

None.

Imaging Impact

None.

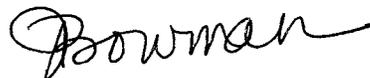
Quality Assurance Impact

Beginning with the July 2010 review month, Quality Assurance will cite with the appropriate error any case that does not follow the requirements of this letter.

Summary of Change

Article	Change
Article 9, section 11	Added Term and Endowment Life Insurance Contract information

Manager Approval



Janya Bowman, Assistant Deputy Director
Health Care Policy Administration
Strategic Planning and Operational Support

MK

Article 9 Section 11 - Life Insurance, Burial Plots, Crypts Vaults and Burial Trusts

Table of Contents

TITLE	MPG CITE
Life Insurance	09.11.01
Burial Plots, Vaults and Crypts	09.11.02
Designated Burial Funds, Burial Trusts and Burial Insurance	09.11.03

09.11.01 – Life Insurance

A. General

This section provides procedures for the treatment of life insurance, burial plots, crypts, vaults, and burial trusts.

MPG Letter #78 (12/89)

B. Term Policies

No Cash Surrender Value (CSV)

Term life insurance policies that do not have a cash surrender value are exempt property. They pay only when the insured dies.

CSV

Some term insurance policies do have a cash value. The combined face value of the term insurance policy with other insurance policies owned by individual family members in the MFBU must be less than \$1,500 or the net CSV of all policies of that individual must be included in the property reserve.

MPG Letter # 702 (6/10)

C. Whole Life Policies

Whole life policies have a CSV and, depending on the age of the policy, may pay money while the insured is alive. Whole life policies owned by members of the MFBU that insure any individual in the family are exempt as long as the combined face value of all of the policies owned by each family member is \$1,500 or less. If the combined face value is more than \$1,500, the net CSV of all of the policies is included in the property reserve.

ACWDL
08-02

EXAMPLE

Mr. Smith owns 3 policies with face values of \$300, \$500, and \$600. Mrs. Smith owns 2 policies with face values of \$900 and \$700. Since the combined face value for Mr. Smith is \$1,400, which is less than \$1,500, the CSV of those three policies are exempt. The combined face value of Mrs. Smith's policies is \$1,600, which is more than \$1,500, so the CSV of those two policies would be included in the property reserve.

MPG Letter #78 (12/89)

D. Endowment Life Insurance Contracts

Endowment Life Insurance Contracts (ELIC) are contracts in which the 'insured' contracts the issuing company to hold a set amount of money for a designated period of time to be paid to the 'insured' if they are still alive at the end of the designated time period. If the 'insured' dies before the time period expires, the issuing company must pay the named beneficiary(ies) a designated amount of money.

Life insurance, under Medi-Cal regulations is a contract for which premiums are paid during the lifetime of the insured and on which the insuring company pays the face amount of the policy to the beneficiary upon the death of the insured. The ELIC does not conform to the definition of life insurance under Medi-Cal regulations because the contract provides for a payment to the 'insured' if they do not die prior to the end of the designated time period.

The ELIC is structured more like a trust or similar legal device and since payments can be made from the trust to or for the benefit of the individual or spouse at any time, it must be considered available property and included in the property reserve (see [article 9, section 14](#) for more information on trusts).

MPG Letter # 702 (06/10)

E. Availability of Cash Surrender Value (CSV)

The CSV of life insurance policy is considered unavailable once an applicant or person acting on behalf of an applicant has taken steps to make the CSV available. The CSV remains unavailable until it is actually received by the applicant/beneficiary as long as he/she continues to make a good faith effort to liquidate the asset.

Once the applicant/beneficiary receives the money (usually in the following month), it becomes available. However, to the extent the applicant/beneficiary is property eligible for at least one day prior to receipt of the CSV in that month, there would be continuing eligibility

ACWDL
08-02

without the CSV of the life insurance affecting eligibility in that month. In addition, if the applicant applies for retroactive coverage, the CSV will be unavailable in the retroactive month only if he/she took the steps necessary to make it available in the retroactive months. This may result in the CSV being available one month and unavailable the following month.

MPG Letter #78 (12/89)

**F.
Case
Situations
Availability**

Example 1

A person comes in to apply for current and ongoing Medi-Cal. He states that he has a \$10,000 face value whole life insurance policy. Upon examination of the CSV tables in the policy, the worker finds that the policy appears to have a \$3,000 CSV. In addition, the person's other nonexempt property is over the property limit. The worker informs the person of the property limit and the need to spend down. The worker also informs the applicant that he/she must take steps to make the CSV available for it to be considered unavailable. The CSV will remain unavailable until it is actually received as long as he/she continues to make a good faith effort to liquidate the asset.

The applicant returns to the worker the following month with a statement from his/her insurance agent that he/she completed the necessary paperwork to obtain the CSV. The date of the statement is in the month of application evidencing that the applicant actually took the steps to make the CSV available in the month of application thereby rendering the CSV unavailable for that month. Providing the applicant had spent down the remaining excess property before the end of the month of application, Medi-Cal could be approved for the month of application.

When the beneficiary receives the CSV, the worker will evaluate property eligibility once again. If applicable, the beneficiary must be informed of the property limits once more. Regular procedures for discontinuance due to excess property would then be followed as appropriate.

Example 2

A person comes in to apply for retroactive Medi-Cal for the prior two months to cover a period of hospitalization. The person's wife had completed the necessary paperwork to obtain the CSV of their life insurance policies soon after her husband was hospitalized. She has a receipt for certified mail from the post office to show the date the paperwork was mailed. This establishes that she took the necessary

steps to make the CSV available in the first month for which retroactive coverage is being requested.

The CSV was received by the applicant in the second month in the retroactive period. The wife immediately applied it toward the hospital bill.

If otherwise eligible, this couple would be eligible for both retroactive months. In the first month the CSV could be considered unavailable and in the second month the excess property was appropriately brought below the property limit before the end of the month (adequate consideration was received).

Example 3

A person comes in to apply in June for himself (one person MFBU). He/She wants retroactive Medi-Cal coverage for the months of March, April and May. The applicant's only property is a life insurance policy with a face value of \$5,000 and a CSV of \$4,000. The worker must explain the property limits, spend down procedures and the fact that the CSV will be considered unavailable from the date the applicant takes steps to liquidate the asset to the date funds are actually received, as long as the applicant continues to make a good faith effort to obtain the CSV. However, since the applicant had not initiated these activities in the retroactive months, the CSV is available in those retroactive months.

The applicant returns one week later (still in the month of application) with a statement from the insurance agent stating that all the necessary paperwork had been completed. Therefore, from that date until the date the CSV is received, the CSV is unavailable.

The applicant is ineligible for retroactive coverage due to excess resources, but if otherwise eligible, Medi-Cal could be granted for the month of application and ongoing until the CSV is obtained. At that time, the CSV becomes available.

MPG Letter #62 (6/89)

G. Verification

The CSV of non-exempt life insurance policies must be verified by viewing either of the following:

- The value tables included in the policy; or
- Signed correspondence from the insurance company which indicates the current value.

09.11.02 - Burial Plots, Vaults and Crypts

A. Exempt

The following property related to burial plots is exempt:

- Any burial plot, vault, or crypt retained for use by any member of the family. "Member of the Family" is defined to include the applicant or beneficiary, his/her spouse, adult or minor children (including adopted and stepchildren), siblings, parents, adoptive parents, and the spouses of those individuals. Neither dependency nor living in the same household will be a factor in determining whether a person is a "Member of the Family."
- Funds held in a revocable burial trust or prepaid burial contract which are specifically identified for use in the purchase of a burial plot, vault or crypt.
- Goods or services that are required in order to purchase the plot are exempt. Additionally, goods permanently installed in the plot (e.g., a headstone which is carved, except for the date of death, and installed on the grave site).
- Interest on burial space contracts which is allowed to accumulate and is not withdrawn.
- If burial space items are purchased by installment payments, the funds applied towards the value of the burial space items.

MPG Letter #94 (2/90)

B. Not Exempt

The following property related to burial plots is not exempt:

- Any burial plot retained for use by a non-family member is considered other real property and is subject to the requirements of MPG Article 9, Section 5. (See definition of "Member of the Family" under 9-11-4.A.1.)
- Any burial vault or crypt retained for use by a non-family member is considered personal property and is included in the property reserve.

MPG Letter #94 (2/90)

**C.
Verification**

The net market value of a non-exempt burial plot, vault or crypt will be the amount listed on form 16-2DSS or MC 210 with no additional verification required unless the value exceeds \$1,800. If the value exceeds \$1,800 the following is required:

- The applicant/beneficiary will submit a statement of value from the organization from which the plot, vault, or crypt was purchased; and
- Subtract any encumbrances from this value. The remainder is the net market value.

MPG Letter #94 (2/90)

09.11.03 - Designated Burial Funds, Burial Trusts and Burial Insurance

**A.
Designated
Burial Funds**

Exemption

There is a \$1,500 per MFBU member property exemption for designated burial funds.

Definition

- Designated burial funds are separately identifiable funds that are clearly designated for burial expenses. This includes:
 - Revocable burial contracts;
 - Revocable burial trusts; or
 - Other revocable burial arrangements.
- Cash-on-hand can be designated as a burial fund as long as it is not commingled with other non-burial related funds. Designated burial funds may not be commingled with non-burial property. (The funds must be separate in order to be exempt.)

EXAMPLE: A bank account containing \$1,200, \$500 of which is designated for burial and \$700 of which is other funds the individual uses for living expenses, is not allowable and the \$500 may NOT be exempted as a burial fund. If the \$700 is moved to a separate account, the exemption may be applied to the \$500 account.

ACWDL
92-58

- Interest which accrues on the funds which is not removed from the fund is exempt.
- Any time the exempt burial fund is used for another purpose, the fund is no longer considered exempt.

EXAMPLE: \$2,500 is paid for a revocable burial trust. In the terms of the trust it states that \$600 is for the purchase of a casket. The worker would compute the exemption as follows:

Amount paid into trust	= \$2,500
Funds identified for casket purchase	- \$600 (exempt)
\$1,500 exemption	- \$1,500 (exempt)
Non-exempt amount equals	\$400 included in property reserve

- Designating burial funds may be accomplished by signing an affidavit under penalty of perjury.

MPG Letter #198 (01/93)

**B.
Irrevocable
Trusts and
Contracts**

Funds held in an irrevocable burial trust or prepaid burial contract which are specifically identified for use in the purchase of a burial plot, vault or crypt are exempt. Burial trusts or prepaid burial contracts can only be rendered irrevocable when a person has applied or is receiving some form of public assistance.

After exempting funds identified for the purchase of a burial plot, vault or crypt (as detailed in 4, A. above), all the following burial funds for an individual shall be exempt:

- Money or securities placed in an irrevocable trust for funeral, cremation, or interment expenses with any of the following trustees: a banking institution or trust company empowered by the State of California to act as trustee in the handling of trust funds, cemetery authority which has established an endowment care fund, or not less than three persons one of whom may be in the employ of a funeral director.
- Money or securities placed in an irrevocable trust created by a deposit in an insured savings institution made by one person of his or her own money in his or her own name as trustee for a funeral director to provide payment for funeral services rendered by the funeral director upon the depositor's death.

ACWD
93-71

- Life or burial insurance purchased specifically for funeral, cremation, or interment expenses, which is placed in an irrevocable trust or which has no loan or cash surrender value available to the recipient.
- Securities issued by a licensed cemetery authority which by their terms are convertible only into payment for funeral, cremation or interment expenses.

Interest earned on or appreciation in value of the burial funds listed above shall be exempt if it is left to accumulate and become part of the separately identifiable burial fund.

MPG Letter #78 (12/89)

**C.
Burial
Insurance**

The cash surrender value of burial insurance policies on any individual must be counted in the property reserve.

MEM
50476

MPG Letter #170 (4/92)
