



THE
ELDER LAW
COACH

TheElderLawCoach.com

THE **GOLDEN** Formula



THE GOLDEN FORMULA

Why is it golden? You knowing this formula and how it is applied to real facts will result in “gold in your pocket” and helping clients protect their estate when they think it is lost.

Example:

Jim and Pam come in about mom. Mom was just admitted to the nursing home and will not be able to leave. She has \$220,000 in assets. The nursing home told Jim and Pam that she had to be under \$2000 in order to qualify for Medicaid, therefore she will lose everything. However, a friend of theirs told them to come see you because you know the Medicaid rules and can possibly help. Her income is \$1,800 per month and the nursing home costs \$6,500 per month. You know the Penalty Divisor for your state is \$6,000 per month. What do you do?

In this case, you will use the Golden Formula to determine how much can be gifted and how much is returned or annuitized to be paid to the nursing home.

The Formula:

$$\frac{\text{Penalty Divisor (PD)}}{\text{PD} + \text{Cost of Care} - \text{Clients' Spendable Income}} = \text{Amount Protected (kept by family)}$$

What we are looking for is the

1) amount that we can gift to the heirs resulting in a gifting penalty with Medicaid and then 2) the amount that will be used to pay the nursing home (along with her income) to get through the penalty.

Let's apply it:

$$\frac{\$6,000}{\$6,000 + \$6,500 - \$1,800} = \frac{\$6,000}{\$10,700} = 56\%$$

Now what do we do with these numbers?

The amount from the total gifted is 56%.

Therefore with \$220,000, here is how we do it.

IMPORTANT PRACTICE TIP: Take out the attorney's fee BEFORE to run this number as below.

One extra point is that if you are doing an annuity, the family will have to probably pay about \$1500 to the company for this annuity, so take that out before you apply the percentage to the big number. You get this:

$$\begin{aligned} & \$220,000 - \$12,000 \text{ (attorney fee)} - \$1,500 \text{ (annuity fee)} = \$206,500 \times 56\% = \$115,640 \\ & \$206,500 \text{ (total amount minus expenses)} - \$115,640 \text{ (gifted amount)} = \$90,860 \text{ to go into the annuity or returned by the family} \end{aligned}$$

(I highly recommend using the annuity so it's “done and over with”. No need to rely on the family to make the payments)

Check your work:

Functionally, what is going to be needed with this plan? Mom's care needs to be paid for through the penalty period. So...

Gift of 115,640/PD of \$6000 = 19.27 months penalty

What will be needed each month to pay the nursing home through the penalty?

NH cost = \$6500 - Her income \$1800 = \$4700 needed each month through the penalty.

\$4700 x 19.27 = 90,569 (what is needed in the annuity). (we are only \$291 off from the above number, pretty dang close. It will always be off a little off due to rounding)

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I run this calculation sitting in front of the client since I've done it so many times. However, I suggest for the first 50 times you do this, step away from the meeting and go to your office to run this. **CHECK YOUR WORK**. That's why I gave it to you. You **DO NOT** want to be wrong.

Once done, remember these kids came in thinking they were going to lose everything. You are now saying "Look, you came in here thinking you would keep nothing but under the Medicaid rules, we are able to protect **around** \$115,640. And, that is **AFTER** my fee."

What is their response? Do they really care what your fee is?!?!?!?! **"You're hired!!"**

NOTE: Some states require a continued need for Medicaid, meaning the applicant does not have enough income to pay for the facility during the penalty. Therefore, the annuity provider may recommend slightly different numbers than above but it will be **VERY** close. That's why I say "we are able to protect around \$115,640".

Other uses of the formula:

This formula is also "golden" when a family comes in where there is a history of the applicant having made gifts in the past. Either mom still has money to work with OR the family thinks they are going to have to pay back all of the money.

In the case where mom still has money, just combine the previous gifts with her current money as if she had never given it away and run the numbers as above.

If there is no money to work with now, the family will most likely think they have to find ALL of the money to pay back and you show them how they only have to pay back a much smaller percentage than 100%. In this case, be sure to ADD your attorney's fees into the amount that they need to pay, which is still way below 100%.

Check out my coaching website www.TheElderLawCoach.com

I would love to work with you and your firm
to become proficient Elder Law Attorneys
and do things like this second nature. Check it out.

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PD: Penalty Divisor

COC: Cost of Care (nursing home cost per month)

Inc: Clients spendable income (net, not gross)

PG: Percent Gifted

AEA: After Expenses Asset

$$\frac{\text{PD}}{\text{PD} + \text{COC} - \text{Inc}} = \frac{\text{AEA}}{\text{AEA}} \times \text{PG} = \text{PG (kept by the family)} \%$$

Total Amount of Client Assets _____

- Attorney Fee _____

- Annuity Fee _____ = _____

$$\frac{\text{AEA}}{\text{AEA}} \times \text{PG} = \text{Gift Amount}$$

Amount going to Annuity: _____

$$\frac{\text{AEA}}{\text{AEA}} - \text{Gift Amount} = \text{Annuity}$$

Check your work:

$$\frac{\text{Gift Amount}}{\text{PD}} = \text{Length of Penalty}$$

Amount Needed each month during the penalty:

$$\frac{\text{COC} - \text{Inc}}{\text{Annuity Payment}} \times \text{Length of Penalty} = \text{Annuity Payment/Month}$$

(should be very close)