RENTAL REAL ESTATE

Pursuant to Medicaid rules, any real estate owned by the applicant that is being rented to a separate entity at a rate within community standards is not counted as an available asset to the applicant. Therefore, if the applicant purchases a home, or second home, and rents it to another individual, the assets used to purchase the home would no longer be counted against the applicant as those assets are invested and not "available."

Although the money used to purchase the rental property is now sheltered from Medicaid, the rent that the applicant receives is considered income. This income is added to the amount an applicant is responsible to pay a facility, otherwise known as the applicant's "patient responsibility." However, Medicaid rules allow an amount of up to 10% of the rental income to be deducted for "management expenses." "Management" can be anyone, including a family member, who the applicant assigns by contractual agreement to manage the property.

In addition to the 10% exclusion of management expenses, all other household expenses including taxes, homeowners insurance, property management, maintenance and/or association fees, utilities (if included in the rental agreement), lawn service, and advertising for renters would be excluded when calculating the monthly patient responsibility. This also is a great option, but again, as with joint property ownership, this option requires a "closing" which may entail closing costs and/or associated fees and has the potential to be a lengthy process.

But I Do Not Want to Become a Landlord!

There are options for those applicants who do not wish to become landlords. This firm has no affiliation and derives no monetary benefit from the company described below, and there may be other companies offering similar services.

1. EPIC

There is a program called Elder Planning Income Concept, LLC otherwise known as EPIC. EPIC is owned and operated by two Florida lawyers, not affiliated with our firm. EPIC provides a turnkey acquisition, leasing and management solution. If it is decided that rental property is one of the planning strategies you would like to use to reduce your assets, we would contact EPIC by submitting a "Request for Services" form. Upon EPIC's receipt of this form, EPIC finds a suitable property for you to purchase. Once the applicant (or his/her family members) purchases this property, EPIC rents the property from the applicant, as well as manages it. The applicant is paid a certain amount of rent from EPIC, for the applicant's life time. Please note, this rent does become a part of the applicant's income. Upon the death of the applicant, family members have the option to continue receiving the rent from EPIC or require EPIC to purchase the property back at the original purchase price (the buy-back option). EPIC's initial contract is for a period of five (5) years (upon the expiration of the first five (5) years, the contract automatically renews for another year.) There are certain "penalties" if the buy-back option occurs before the end of the five years depending on how soon this option is required (i.e. due to the death of the applicant before the 5 years expires).

Simply put, EPIC's role is to locate property (at a minimum of $25,000.00) for the applicant to purchase, lease the property from the applicant, guaranteeing a monthly income to the applicant, then buy back the property at the original purchase price at the death of the applicant.

SAMPLE EPIC FEES/COSTS SCENARIO:
If the Medicaid applicant desires to protect $200,000.00, there would be approximately $7,000.00 in closing costs and recording fees. This would mean that they are actually investing $193,000.00 in rental real estate, which would produce $483.00 each month in income. After five years, or the date the Medicaid beneficiary passed away (whichever is later), the designated heirs would receive $193,000.00. If the Medicaid beneficiaries OR designated heirs desired the money back before five years (e.g. if the Medicaid beneficiary passed away prior to the five year period) there is an 8% early-termination fee. In the alternative, the designated heir could simply receive the income and wait until the five-year period elapsed.