

**2323- LIFE INSURANCE POLICIES**

<b>POLICY STATEMENT</b>	<p>A life insurance policy is a resource if it has a cash surrender value (CSV). Its value as a resource is the amount of the CSV. The CSV of some policies may be excluded in ABD Medicaid. Accidental Death and Dismemberment policies are not considered as Life insurance policies for purposes of burial assets.</p> <p>This is an excluded resource for Family Medicaid.</p>
<b>BASIC CONSIDERATIONS</b>  <b>Cash Surrender Value</b>	<p>The CSV is a form of equity value that the policy acquires over time. The owner of a policy can obtain its CSV only by turning the policy in for cancellation before it matures or before the insured dies. A loan against a policy reduces its CSV. In some cases, penalties may be applied for early access of funds. These penalties are deducted from the value of the resource to determine the cash value available.</p> <p>Term insurance policies that do not generate a CSV are not resources. However, they are considered first as part of the burial exclusion allowance.</p> <p>A burial insurance policy is a contract with terms that preclude the use of its proceeds for anything other than payment of the insured's burial expense. Burial insurance policies are not resources if the owner does not have access to the CSV. However, they will be included as part of the burial exclusion allowance or considered as a transfer of assets, if the A/R exceeds the burial exclusion allowance. Refer to <a href="#">Section 2342</a>.</p> <p>If a burial policy has a CSV to which the owner has access, the policy is considered to be a life insurance policy, and not a burial policy.</p> <p>A supplementary contract is not a life insurance policy. Supplementary contracts normally provide for an annuity. Treat such contracts in accordance with the instructions on filing for other benefits, just as an IRA or other type of retirement fund. Refer to <a href="#">Sections 2332</a>, Retirement Funds, and/or <a href="#">2339</a>, Trust Annuities.</p>
<b>Face Value (FV)</b>	<p>FV is the amount of basic death benefit contracted for at the time the policy is purchased. The face page of the policy may show it as such, or as the amount of insurance, the amount of this policy, the sum insured, etc.</p>

**BASIC  
CONSIDERATIONS****Face Value  
(FV)  
(cont.)**

A policy's FV does not include the following:

- the FV of any dividend addition that is added after the policy is issued
- additional sums payable in the event of accidental death or because of other special provision
- the amount(s) of term insurance when a policy provides whole life coverage for one family member and term coverage for the other(s).

Dividend additions are amounts of insurance purchased with dividends and added to the policy, increasing its death benefit and CSV. The table of CSVs that comes with the policy does not reflect the added CSV of any dividend additions.

Dividend additions are not included in the face value amount used to determine whether a life insurance policy is an excluded resource. Refer to PROCEDURES in this section for more information on dividends paid on life insurance policies.

**PROCEDURES****Exclusions**

How whole or term life insurance is considered depends upon whether the policy is used as part of the burial exclusion allowance. Funds set aside for burial, burial contracts and the FV of all life insurance policies are considered in the computation of the burial exclusion allowance.

To be exempted from resources, an A/R and/or deemor may own up to the total burial exclusion allowance on **each** individual (A/R or deemor). A life insurance policy on an A/R or spouse that is owned by another person is not counted as part of the burial exclusion or as a resource. However, explore whose money funded the policy for potential transfer penalty.

**ABD Medicaid  
Non-FBR COAs**

Life insurance policies with a Face Value of 10,000 or less may be considered for burial exclusion. Life insurance policies with a Face Value greater than 10,000 must have the cash surrender value counted toward the resource limit. Only the Face Value, not the Cash Surrender Value, may be applied toward the burial exclusion allowance.

## PROCEDURES

ABD Medicaid  
Non-FBR COAs  
(cont.)

Compute a transfer of assets penalty in the following situations:

- If the A/R transfers the policy to another, compute a transfer penalty on the FV.
- If the A/R cashes in all or part of the life insurance and transfers that amount, compute the transfer penalty on the actual dollar amount transferred. Any amount retained is a countable resource.
- If the A/R uses his/her funds to purchase a life insurance policy that is owned by another person.

Begin the penalty for applicants the month of the transfer or the 1<sup>st</sup> month in which A/R is otherwise Medicaid eligible, whichever is later; or for recipients the 1<sup>st</sup> month in which timely notice may be given. Refer to [Section 2342](#), Transfer of Assets.

If the A/R or deemor has a term policy which has a FV of \$10,000 or more, that policy will make up the entire burial exclusion allowance. **Term policies should always be considered first in the burial exclusion allowance.** Any amount in excess of the \$10,000 will be subject to Estate Recovery.

**NOTE:** This change in policy is effective July 1, 2005. However, implement beginning January 1, 2007, for any applications (including three month's prior) and reviews completed after this date.

Exclusion for ABD  
Medicaid FBR COAs

For FBR A/R's, exclude from resources the accessible CSV of life insurance policies owned by the A/R if its face value (FV) and the value of all other burial exclusion assets owned by the A/R on the same individual is a total of \$1500 or less.

A FBR A/R may own up to a total of \$1500 FV life insurance on **each** individual (A/R and deemor) and still be entitled to the exclusion.

Verification and  
Documentation For  
ABD Medicaid

Require the A/R to submit all life insurance policies owned by the A/R and deemors. **Exception:** Q Track A/Rs do not need to submit policies unless questionable or if it is necessary to determine the CSV.

**PROCEDURES****Verification and  
Documentation For  
ABD Medicaid  
(cont.)**

Document all policies on the system.

Verify the following items on all life insurance policies:

- the owner
- the insured
- the FV
- whether the policy pays dividends and, if it does, what option the individual selected for their disposition, such as accumulation, dividend additions, applied to premiums or paid directly to the A/R by check.
- the CSV of any dividend additions
- the current amount and interest earned on any dividend accumulations.
- for Non-FBR COAs, policies with a FV greater than \$10,000 verify the following: whether the policy generates a CSV and, if it does, the current CSV (do not count the CSV of any dividend additions). It is not necessary to verify the CSV of life insurance policies with a cumulative FV of \$10,000 or less if used as part of the burial exclusion allowance. Verify the CSV of any policies not included in the burial exclusion allowance
- for FBR COAs, policies with a FV greater than \$1500 verify the following: whether the policy generates a CSV and, if it does, the current CSV (do not count the CSV of any dividend additions). It is not necessary to verify the CSV of life insurance policies with a cumulative FV of \$1500 or less.

**Dividends**

Make copies of pages from insurance policies which show the above information. If a policy does not reveal any item, contact the insurance agent or company by telephone, letter or Form 106.

Refer to Appendix F for Form 106 and Record of Life Insurance form.

Unless there is evidence to the contrary, assume the following to be true:

- A policy issued by a non-participating or stock company does not pay dividends.
- A policy issued by a participating or mutual company pays dividends.

**NOTE:** Identification of the kind of company usually follows its name on the face page of the policy.

**PROCEDURES****Dividends  
(cont.)**

If the examination of a policy does not reveal this information, obtain the information by telephone, letter or Form 106 from the insurance agency or company.

Refer to [Section 2315](#), Dividends, Accrued, for information on the resource treatment of dividends paid on life insurance policies.

**Computing  
Burial Assets**

Refer to Appendix F for Burial Exclusion form to compute the \$1500/\$10,000 burial funds exclusion by the value of any of the following assets owned by the A/R or deemor:

- The FV of burial insurance policies.
- The FV of any life insurance policy (whole or term) on the A/R or A/R's spouse. For Non-FBR A/Rs:
  - ♦ If the FV was not used to reduce the burial exclusion amount, then the CSV of the life insurance is a countable resource.
  - ♦ All or part of the FV of one spouse's insurance may NOT be applied to the other spouse's burial exclusion.
- The non-excluded portion of any pre-need burial contract. See [Section 2311](#).
- Funds set aside for burial (less any interest/dividends left to accrue). Funds designated for burial must be owned by the individual or jointly owned between the A/R and spouse. See [Section 2312](#).

Use the value of the burial assets in the most advantageous way for the A/R or deemor so that it does not exceed the \$1500/\$10,000 burial exclusion.