305.02 TREATMENT OF ANNUITIES PURCHASED PRIOR TO 2/8/2006

An annuity purchased before February 8, 2006, by or for an individual using that individual's assets will be considered a transfer of assets unless both of the following conditions are met:

1. The annuity produces a net annual return of at least 6% of its equity value, and
2. The annuity pays out principal and interest in equal monthly installments (no balloon payments) to the individual in sufficient amounts that the principal is paid out within the actuarial life expectancy of the individual seeking long term care services, including HCBS services.

An annuity that meets the criteria above will be excluded as a resource and the income paid by the annuity counted as income to the annuitant.

An annuity that does not meet the required conditions is a transfer of assets if purchased during the look-back period. The income produced by the annuity counts as income to the annuitant during the transfer penalty and the full payment period of the annuity.

305.02.01 Calculating the Uncompensated Value (UV) of Annuities (Pre-DRA)

Use the following procedures to calculate the uncompensated value of annuities purchased prior to February 8, 2006:

- Divide the purchase price of the annuity by the number of payout years. This equals the annual rate.

- Using the Life Expectancy Tables published by the Office of the Actuary of the Social Security Administration (located in the Appendix), determine the number of years the individual is expected to live. Subtract the number of years from the number of payout years.

Calculating the Uncompensated Value (UV) of Annuities (Pre-DRA) (Continued)

- Multiply the difference by the annual rate. This is the uncompensated value.
  - Purchase Price divided by Payout years = Annual Rate
  - Payout years minus Life Expectancy = Difference
  - Difference times Annual Rate = Uncompensated Value (UV)

For example, an 80 year old male purchases an annuity for $10,000 prior to 02/08/2006, to be paid over 10 years. His life expectancy, using the chart in effect at the time of the case action is 7.62 years. The UV is calculated as follows:

- The purchase price ($10,000.00) is divided by the number of payout years (10) to get the annual rate of $1,000.00.
- The number of payout years (10) minus the Life expectancy years (7.62) equals 2.38.
- 2.38 X annual rate of $1,000.00 = $2,380.00, the uncompensated value.