

MISSISSIPPI DIVISION OF MEDICAID

Eligibility Policy and Procedures Manual

CHAPTER 300 - Resources

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305.03.07 Determining Whether An Annuity is Actuarially Sound

A determination must be made on whether the purchase of annuities, other than qualifying IRS annuities, is treated as a transfer of assets for less than fair market value. If the expected return on the annuity is commensurate with a reasonable estimate of the life expectancy of the beneficiary, the annuity can be deemed actuarially sound.

To make the determination regarding whether the annuity is actuarially sound, use the life expectancy tables located in the Appendix, compiled from information published by the Office of the Actuary of the Social Security Administration. The average number of years of expected life remaining for the individual must coincide with the life of the annuity.

If the individual is not reasonably expected to live longer than the guarantee period of the annuity, the individual will not receive fair market value of the annuity based on the projected return. In this case, the annuity is not actuarially sound and a transfer of assets for less than fair market value has taken place, subjecting the individual to a penalty.

The penalty is assessed based on a transfer of assets for less than fair market value that is considered to have occurred at the time the annuity was purchased, using the full purchase price as the amount transferred.

Examples

1. A male at age 65 purchases a \$10,000.00 annuity to be paid over the course of 10 years. His life expectancy according to the table in effect at the time is 16.73 years; thus, the annuity is actuarially sound.
2. A male at age 80 purchases a \$10,000.00 to be paid over the course of 10 years. His life expectancy (using the table in effect at the time) is only 7.62 years; thus, the annuity is not actuarially sound.