ELCO MUTUAL

LIFE & ANNUITY

Guardian Eagle & SPIA

Agent Training Guide

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Definitions

Current Value:	The sum of all premiums, plus accrued interest, less the amount of any withdrawals.
Annuitant:	The person(s) whose life is used for the basis of the annuity, notably for annuitization. The owner and annuitant are usually the same person.
Annuitization:	The option to convert a deferred annuity into a fixed income stream. The current value of the contract can either be paid out over a fixed period or for the remainder of the annuitant's life.
Annuity:	A contract sold by an insurance company which can be used to generate an income stream or accumulate interest.
Beneficiary:	The recipient(s) of an annuity's value upon the death of the contract owner.
Premium:	Money used to fund an annuity.
Surrender Value:	The current value of the contract less any withdrawal charges for early termination.
Contract Owner:	The person or entity who owns rights to the contract. This person names the annuitant and beneficiary and may exercise the provisions of the contract.
Cost Basis:	The portion of the contract that is not subject to income taxation.
Tax-Deferral:	A concept that allows owners to postpone income taxation on earnings until the funds are withdrawn.
Market Value Adjustment (MVA):	A Market Value Adjustment (MVA) can be attached to a tax-deferred annuity that features fixed interest rate guarantees combined with an interest rate adjustment factor that can cause the actual crediting rates to increase or decrease in response to market conditions.
Current Crediting Interest Rate:	A non-guaranteed interest rate that is subject to change.
Rider:	An additional benefit which can be purchased and added to the base contract.
Death Benefit:	The payment made to the beneficiary upon the death of the owner.
Penalty-Free Withdrawal:	An allowance within the contract which permits owners to take a fixed percentage of the contract's principal during the withdrawal charge period without incurring a penalty.
Withdrawal Charge Period:	A duration of time in which contract owners are penalized for withdrawals in excess of the permitted amount.
Free-Look Period:	The period of time after a contract is delivered when the owner may cancel the policy without penalty.

Types of Annuities

Fixed Tax-Deferred Annuity:	A contract which credits a specific interest rate and accrues interest on a tax-deferred status. There are two overarching contract types for fixed products:
Single Premium:	An annuity purchased with a single payment. Once opened, most contracts do not allow for additional contributions to be made.
Flexible Premium:	An annuity that allows for additional contributions to be made after the contract is issued.
Multi-Year Guaranteed Annuity (MYGA):	A fixed tax-deferred annuity which guarantees a specific interest rate over the course of a predetermined term.
Immediate Annuity:	An annuity purchased with a single premium which returns the funds plus interest over a specific period of time.
Indexed Annuity:	An annuity which has interest rates directly tied to the performance of an index market, such as the S&P 500.
Variable Annuity:	An annuity that can gain or lose funds depending on the performance of an underlying stock portfolio.

Agent Expectations

Agents are expected to know the customer. The pertinent information to obtain includes: age, annual income, financial needs and objectives, source of funds, financial experience, intended use, existing assets, liquidity needs, net worth, risk tolerance, tax status.

Agents are expected to know the product. Understanding all facets of the policy in order to educate the consumer is the top priority: Policy features, tax benefits, tax penalties, annuitization options, death benefits, living benefits, liquidity options, surrender period, surrender charge schedule, maturity vs. surrender period, expenses and fees (if any), limitations on returns.

Agents are expected to know the suitability. Will the consumer benefit from the purchase or exchange? Will they incur new surrender charges? Will they be subject to a new surrender schedule? Will they lose existing benefits? Does the consumer's investment objective match the product features? Have they had an exchange or replacement within the past 36 months?

Annuity Suitability

Four Hour Annuity Course

Needs Based Selling and Suitability Guidelines

Performing a needs-based analysis helps ensure your clients get the appropriate product for their unique financial situation.

Determining the suitability of a product for a client is the most important service you can offer them as a trusted resource. Evaluating suitability is a crucial part of the sales process as it not only helps you gain a better understanding of their financial situation, but also helps protect you. To understand whether a product is suitable or not will all depend on their financial history, their current situation, and the overall problem they are looking to solve.

Most states have passed new regulations and now require producers to complete suitability documentation. The regulations generally require you to provide specific reasons as to why the recommendation you are making is suitable for your client, based on the information you've received.

To address your client's needs and meet suitability requirements for annuities, we recommend:

1. **Collecting Information:** Gather as much information about the client as possible. After acquiring basic information such as their age, collect more data to help build a complete understanding of their financial situation. Some key points to look for are:
    - Assets.
    - Liabilities.
    - Net worth.
    - Employment information.
    - Martial status and children.
    - Other life and annuity products currently held.
    - Financial objectives.
    - And more (described in a later section).
2. **Educating Clients:** Teaching your clients about the financial services industry and the product they are interested in purchasing is essential. Make sure they understand the benefits and drawbacks of the contract. Some common topics to cover are:
    - The duration of withdrawal charges and how they work.
    - The guarantees of the contract.
    - Any fees associated with the product (policy fees).
    - In regards to annuities, tax-deferral versus income tax free.
3. **Using State-Required Forms:** You can use the forms provided by the insurer to acquire a majority of the information you need to make an informed recommendation. And, using these forms helps ensure a smoother sales process.
4. **Avoid Over Selling:** Emphasizing one feature of the product and ignoring potential drawbacks can create a negative situation for the agent, the client, and the home office.
5. **Providing Plenty of Follow Ups:** Following up with your clients not only provides many new opportunities, but also helps you stay informed about any significant changes in their financial situation.

Protection in Annuity Transactions

Over the past several years, the NAIC has established model regulations to better protect annuity consumers from unsuitable sales and abusive sales and marketing practices. These model regulations initially set forth standards and procedures for making recommendations to senior consumers that result in a transaction involving annuity products. The model regulations later evolved to cover all consumers.

The standards and procedures help assure that an insurance producer appropriately addresses the insurance needs and financial objectives of consumers at the time of the transaction. Specifically, the NAIC regulations:

1. Hold insurers responsible for ensuring that annuity transactions are suitable by establishing a system to supervise agents' recommendations to consumers.
2. Require that agents be trained on the provisions of the annuities in general and the specific products you are selling.

ELCO Mutual Life & Annuity reviews each application and suitability form to assure that the transaction is in the applicant's best interest. Based on the facts entered on the suitability form by the applicant as to their financial situation, needs, investments and other products, the insurance producer and insurer must have reasonable grounds for believing that the annuity recommendation is suitable for the consumer.

Obligations of Insurance Producers and Insurers to Determine Suitability

Prior to offering an annuity, an insurer or producer must obtain the consumer's suitability information.

Suitability information is defined as any information used to determine the suitability of a recommendation. There are many forms of suitability information, including the following:

- Age of the annuitant and owner.
- Current gross and net income.
- Total amount of liquid assets.
- Financial needs driving the purchase of the annuity.
- What is the intended use? Growth? Income?
- Financial history of the proposed owner.
- Long-term objectives of the proposed owner.
- The need for liquidity.
- Risk tolerance for financial products.
- The ability to take risk.
- Current tax situation of the owner.
- Other annuities or life insurance products currently in force.
- Determining if this contract is a replacement.

By having the applicant complete the Suitability Form, the applicant and you agree that the proposed annuity is suitable for their financial needs and objectives. Request any other pertinent information that may apply to the annuity purchase or exchange. Explain the advantages and disadvantages of purchasing an ELCO annuity clearly.

We ask that you continue to follow the laws of the state where you conduct business. If you have questions regarding the suitability of an annuity, please contact the Agency Department, at 888-240-3351.

Guardian Eagle (Multi-Year Guaranteed Deferred Annuities)

General Information

Application Form: App. SPD11 must be used and accompanied by Sales Disclosure Form: ASDMYG-17, Annuity Sale Suitability Disclosure Form: ASCD and the IRS's Form: W9 (per applicant/owner).

Other forms that may be required are as follows:

- IRA/IRA Roth Fact Sheet
- Community Property Form
- Trust Disclosure Form
- Power of Attorney/Guardianship
- A Letter of Instruction
- The 59 ½ Rule Letter
- Replacement Forms (see details in the next bullet point)
  - Make sure to answer the replacement questions correctly on the application (section 6) and if checked "YES", identify the existing policies in the space provided. If replacement of another policy is involved, the application must be accompanied by a replacement form. {Danette}
- The annuitant and the owner on an IRA contract must be the same person.
- If the owner is required to take a Required Minimum Distribution (RMD), it is advised they take it before the funds are sent to ELCO.
- All Guardian Eagle products can be issued on a non-qualified or a tax-qualified basis. Roth IRAs are also available on all contracts if an inception date is provided.
- The annuitant and the owner for a non-qualified contract are generally one and the same, unless the policy is to be owned by a trust (the applicants must be the grantors of the trust).
- We allow co-annuitants and co-owners. However, they must be spouses. We will not allow co-annuitants and single ownership.
- Almost all Guardian Eagle contracts are available up to age 90. The 10-year term is only available until age 85.
- The minimum premium is $10,000 for non-qualified cases and $5,000 for qualified funds.
- The maximum premium per family is $500,000 for 1-5-year terms.
- The maximum premium per family for the 10-year term is $1,000,000.
- These contracts are purchased with a single premium. However, additional contributions can be made within the first 90 days after the contract's effective date.
- All Guardian Eagle annuities are issued at age-nearest-birthday.
- Full account value will be paid at death. There are no Market Value Adjustments (MVAs) or hidden fees.
- Please note that various states require specific forms. These items are located on ELCO's website within the agent portal.
- A total or partial withdrawal of the current value of the contract before the end of its guaranteed term will incur withdrawal charges.

Guardian Eagle 1 and 2 (Policy Forms: ICC19-MYGA1-19 & ICC19-MYGA2-19)

Guaranteed Term

- The Guardian Eagle 1 and 2 offer a fixed, guaranteed interest rate for their respective terms.

Liquidity Features

- Earned interest, which may be withdrawn free of charge via scheduled payments or individual request(s).
- A single penalty free withdrawal of up to 15% of the remaining principal is allowed once per contract year after the first contract year. (This in addition to free withdrawals of earned interest.)
- Withdrawal charges will be waived if the funds are used to purchase:
    - An immediate annuity with a period that either meets or exceeds the withdrawal penalty period of the contract.

Other Options **(these options must be chosen within 30 days following the original 1 or 2-year period.)**

- The owner may choose to annuitize and take an income stream for life, a fixed period, or for life with a guaranteed period of payments. Benefits will vary depending on the option selected.
- The owner may choose to take the current value in the form of a check or a transfer to another financial institution.
- The owner may choose to take a portion of the current value and leave the remaining balance of funds with ELCO. The minimum amount required to keep a contract in-force with this option is $10,000.
- The owner may exchange an existing contract for a new contract. No reporting will be done to the IRS and no IRS form 1099 will be issued until a withdrawal is made. This process requires the writing of a new application.
- Continuation Option: Owners of the one and two-year contracts can continue their guaranteed term as a five-year deferred annuity at the original one and two-year guaranteed rate at the time of purchase. Once the contract reaches the end of its initial guaranteed period, the owner has a 30-day window to exercise one of the three options:
    1. Withdrawal the funds without penalty.
    2. Transferring the annuity into a brand new contract at the then current rate.
    3. Elect the continuation option, which allows contract owners to extend the guaranteed term and interest rate for the remainder of four or three years, respectively. The continuation rate is determined at the time of issue and can be located on the sales disclosure page.

    Example:

    John purchases a two-year Guardian Eagle at an interest rate of 1.75% APY. At the end of his two-year period, John is given the choice of taking the funds, putting it into a new contract or continuing the existing annuity at an interest rate of 1.75% APY for the next three years. If John had purchased a one-year Guardian Eagle, he could have continued at the 1.75% for four years instead.

Withdrawal Penalty Period

Guaranteed Term	Contract Year										
	1	2	3	4	5	6	7	8	9	10	11+
1 Year	5%	0% →									
2 Year	5%	4%	0% →								

Guardian Eagle 4 (Policy Form ICC19-MYGA4-19)

Guaranteed Term

- The Guardian Eagle 4 provides its owner with a fixed, guaranteed rate for four years.

Liquidity Features

- Earned interest, which may be withdrawn free of charge via scheduled payments or individual request(s).
- A single penalty free withdrawal of up to 15% of the remaining principal is allowed once per contract year after the first contract year. (This in addition to free withdrawals of earned interest.)
- Withdrawal charges will be waived if the funds are used to purchase:
  - An immediate annuity with payments for life.
  - An immediate annuity with a fixed period that either meets or exceeds the withdrawal penalty period of the contract.

Other Options

- The owner may choose to annuitize and take an income stream for life, a fixed period, or for life with a guaranteed period of payments. Benefits will vary depending on the option selected.
- The owner may choose to take the current value in the form of a check or a transfer to another financial institution.
- The owner may choose to take a portion of the current value and leave the remaining balance of funds with ELCO. The minimum amount required to keep a contract in-force with this option is $10,000.
- The owner may exchange an existing contract for a new contract. No reporting will be done to the IRS and no IRS form 1099 will be issued until a withdrawal is made. This process requires the writing of a new application.

Withdrawal Penalty Period

Guaranteed Term	Contract Year									
	1	2	3	4	5	6	7	8	9	10	11+
4 Year	5%	4%	3%	2%	0% →						

Guardian Eagle 5 (Policy Form ICC19-MYGA5-19)

Guaranteed Term

- The Guardian Eagle 5 provides its owner with a fixed, guaranteed rate for five years.

Liquidity Features

- Earned interest, which may be withdrawn free of charge via scheduled payments or individual request(s).
- A single penalty free withdrawal of up to 15% of the remaining principal is allowed once per contract year after the first contract year. (This in addition to free withdrawals of earned interest.)
- Withdrawal charges will be waived if the funds are used to purchase:
  - An immediate annuity with payments for life.
  - An immediate annuity with a fixed period that either meets or exceeds the withdrawal penalty period of the contract.

Other Options

- The owner may choose to annuitize and take an income stream for life, a fixed period, or for life with a guaranteed period of payments. Benefits will vary depending on the option selected.
- The owner may choose to take the current value in the form of a check or a transfer to another financial institution.
- The owner may choose to take a portion of the current value and leave the remaining balance of funds with ELCO. The minimum amount required to keep a contract in-force with this option is $10,000.
- The owner may exchange an existing contract for a new contract. No reporting will be done to the IRS and no IRS form 1099 will be issued until a withdrawal is made. This process requires the writing of a new application.

Withdrawal Penalty Period

Guaranteed Term	Contract Year										
	1	2	3	4	5	6	7	8	9	10	11+
5 Year	5%	4%	3%	2%	1%	0% →					

Guardian Eagle 10 (Policy Form ICC19-MYGA9-19)

Guaranteed Term

- The Guardian Eagle 10 provides its owner with a fixed, guaranteed rate for five years.

Liquidity Features

- Earned interest, which may be withdrawn free of charge via scheduled payments or individual request(s).
- A single penalty free withdrawal of up to 15% of the remaining principal is allowed once per contract year. (This in addition to free withdrawals of earned interest.)
- Withdrawal charges will be waived if the funds are used to purchase:
  - An immediate annuity with payments for life.
  - An immediate annuity with a fixed period that either meets or exceeds the withdrawal penalty period of the contract.

Other Options

- The owner may choose to annuitize and take an income stream for life, a fixed period, or for life with a guaranteed period of payments. Benefits will vary depending on the option selected.
- The owner may choose to take the current value in the form of a check or a transfer to another financial institution.
- The owner may choose to take a portion of the current value and leave the remaining balance of funds with ELCO. The minimum amount required to keep a contract in-force with this option is $10,000.
- The owner may exchange an existing contract for a new contract. No reporting will be done to the IRS and no IRS form 1099 will be issued until a withdrawal is made. This process requires the writing of a new application.

Withdrawal Penalty Period

Guaranteed Term	Contract Year										
	1	2	3	4	5	6	7	8	9	10	11+
10 Year	9%	8%	7%	6%	5%	4%	3%	2%	1%	0% →	

Guardian Eagle Flex (Flexible Premium Deferred Annuities) (Policy Form: FPA16)

General Information

Application Form: App. FPA16 must be used and accompanied by Sales Disclosure Form: ASDFPA-16, Annuity Sale Suitability Disclosure Form: ASD and the IRS's Form: W9 (per applicant/owner).

Other forms that may be required are as follows:

- IRA/IRA Roth Fact Sheet
- Community Property Form
- Trust Disclosure Form
- Power of Attorney/Guardianship
- A Letter of Instruction
- The 59 ½ Rule Letter
- Replacement Forms (see details in the next bullet point)
    - Make sure to answer the replacement questions correctly on the application (section 6) and if checked "YES", identify the existing policies in the space provided. If replacement of another policy is involved, the application must be accompanied by a replacement form. {Danette}
- The annuitant and the owner on an IRA contract must be the same person.
- If the owner is required to take a Required Minimum Distribution (RMD), it is advised they take it before the funds are sent to ELCO.
- All Guardian Eagle products can be issued on a non-qualified or a tax-qualified basis. Roth IRAs are also available on all contracts if an inception date is provided.
- The annuitant and the owner for a non-qualified contract are generally one and the same, unless the policy is to be owned by a trust (the applicants must be the grantors of the trust).
- We allow co-annuitants and co-owners. However, they must be spouses. We will not allow co-annuitants and single ownership.
- The minimum contribution amount is $100.
- The maximum contribution allowance per year is $100,000.
- The Guardian Eagle Flex is available until age 90.
- All Guardian Eagle annuities are issued at age-nearest-birthday.
- Full account value will be paid at death. There are no Market Value Adjustments (MVAs) or hidden fees.
- Please note that various states require specific forms. These items are located on ELCO's website within the agent portal.
- A total or partial withdrawal of the current value of the contract before the end of its withdrawal penalty period will incur withdrawal charges.

Guaranteed Term

There is no guaranteed term for this product. The Guardian Eagle Flex offers a current crediting interest rate that can vary at any time. However, each contract has a guaranteed minimum interest rate.

While the Guardian Eagle Flex does not have a guaranteed term, it does possess a five-year withdrawal charge period from the time of issue.

Liquidity Features

- Earned interest, which may be withdrawn free of charge via scheduled payments or individual request(s).
- A single penalty free withdrawal of up to 15% of the remaining principal is allowed once per contract year after the first contract year. (This in addition to free withdrawals of earned interest.)
- Withdrawal charges will be waived if the funds are used to purchase:
  - An immediate annuity with payments for life from ELCO.
  - An immediate annuity with a fixed period that either meets or exceeds the withdrawal penalty period of the contract from ELCO.

Other Options

- The owner may choose to annuitize and take an income stream for life, a fixed period, or for life with a guaranteed period of payments. Benefits will vary depending on the option selected.
- The owner may choose to take the current value in the form of a check or a transfer to another financial institution.
- The owner may choose to take a portion of the current value and leave the remaining balance of funds with ELCO. The minimum amount required to keep a contract in-force with this option is $10,000.

Withdrawal Penalty Period

	Contract Year						
Term	1	2	3	4	5	6	7+
Flexible	5%	5%	5%	5%	1%	0% →	

Waiver of Withdrawal Charges Upon Qualifying Hardship Events

1. **Nursing Home:** Clients may request, by written notice to ELCO, to make a full surrender or partial withdrawals and we will waive the withdrawal charge if the contract was: (1) purchased prior to the owner's 76th birthday; and (2) the contract has been in force for at least one year; and (3) confinement begins after the date of issue and continues for 90 consecutive days; and (4) the owner has owned the contract continuously since the date of issue.
2. **Terminal Illness:** Clients may request, by written notice to ELCO, to make a full surrender or partial withdrawals and we will waive the withdrawal charge if the clients have been the owner of the contract continuously since the contract date of issue and the owner becomes terminally ill (which shall mean one or both of the following qualifying events):
   1. Any medical conditions which a physician certifies has reduced the owner's expected life span to nine (9) months or less; or

2. The owner is diagnosed with a Heart Attack, Stroke, or Life-Threatening Cancer after this contract was purchased and has been in force for at least one year and the owner is not older than age 70. The owner must provide proof of such terminal illness. Such proof shall include, but not be limited to certification by a licensed physician who: (1) has examined the owner and is qualified to provide such certification; and (2) is neither the owner nor a member of the owner's family. Such certification shall also state that the terminal illness was diagnosed after the contract date of issue. We reserve the right to require a second opinion and to have the owner examined by a licensed physician of our choosing and at our expense and such second opinion shall be the basis for determining proof.
3. Rejection of Waiver. If we reject the request for the waiver of withdrawal charges due to insufficient proof of a qualifying event, the funds requested for withdrawal (the "Withdrawal Proceeds") will not be disbursed until the owner is notified of the denial and provided with the opportunity to accept or reject the Withdrawal Proceeds, including any withdrawal charges.
4. Termination of Waiver. Termination of the waiver benefit will be upon the written request from the owner or upon termination of the contract. The termination of the waiver benefit shall not prejudice the waiver of any surrender charge while the waiver benefit was in force.

Additional Information About ELCO's Guardian Eagle Annuities

Settlement Options for the Guardian Eagle Products

A death benefit will be payable if the owner dies before the Annuity Date and while the policy is in force. If Co-Owners exist, the death benefit will be paid at the death of the second co-owner. The death benefit will be payable upon receipt of: proof of death, one of our company's death claim forms, and the policy (if available). We will also need to receive information about the method of payment chosen by the beneficiary.

The death benefit amount is equal to the net policy value as of the date of death. It may be reduced by any applicable taxes that are due.

Maturity Date Information

- The Maturity date is shown on the Schedule Page in the contract.
- The Maturity date is established in relation to the withdrawal charge period for internal accounting purposes to maximize the interest payout rate and protect the deferral of taxes for the client.
- The maturity date has no binding effect on the annuitant. The owner can change it at any time following the expiration of the withdrawal charge period or extend the maturity date prior to the end of the withdrawal charge period.
- The owner can receive the complete proceeds, without penalty, any time after the surrender charge period has expired.
- The annuitant is not obligated to begin payments on the maturity date and can defer the start date to any date they select with written notice.

Single Premium Immediate Annuities (SPIA)

A SPIA is takes a lump sum, applies interest, and then distributes the proceeds of the contract over a period of time. Often, SPIAs are used in situations where a client requires an income stream. Some key facts regarding these contracts are:

- No additional premiums are allowed.
- The first payment to the client is can be made at the time of issue or after the specified first payment date.
- The minimum monthly payment is $50 per month.
- Interest rates are determined at time of issue.

Options Available:

1. **Life Only:** Payments are made to the annuitant during his/her life time only. Upon death no further payments are made.
2. **Fixed Period:** Payments are made for a specific period of time – from 5 to 30 years. If death of the annuitant occurs within this time period, future payments continue to the beneficiary.
3. **Life Certain:** Payments are made to the annuitant for his lifetime and if he passes away before the certain period expires (5 to 30 years maximum), payment to complete the period certain are made to the beneficiary.

Settlement Options for Immediate Annuities

The normal claim procedure on fixed benefit immediate annuities is for the beneficiary(s) to receive continued payment until the end of the fixed term. Some ELCO immediate annuities allow beneficiaries to receive a lump sum payment. This is a commuted payment based on the net present value of the future monthly payments based on a 6% annual discounted rate. This is not a 6% charge, but a 6% annual discount rate applied to each of the remaining payments. While this does provide a lesser amount to the beneficiary(s), the benefit to them is the ability to receive all the funds immediately, opposed to having to wait until the contract finishes its payout phase.

Commuted Benefit

This is a commuted payment based on the net present value of the future monthly payments based on a 6% annual discounted rate. This is not a 6% charge, but a 6% annual discount rate applied to each of the remaining payments. While this does provide a lesser amount to the beneficiary(s), the benefit to them is the ability to receive all the funds immediately, opposed to having to wait until the contract finishes its payout phase.

Cash Refund

This death benefit will be a cash refund, equal to the Single Premium paid less any benefits paid under this contract.

The Medicaid Program

Medicaid is a government program that provides health insurance coverage to those with limited income and resources. Although the program's eligibility standard and coverage have changed in the 55 years since it was originally established, Medicaid remains the primary source of assistance for long-term care costs in the U.S.

When it comes to long-term care, Medicaid benefits cover custodial care, including room and board, pharmacy, and incidentals, in a Medicaid-approved facility. This is typically a skilled nursing home, but some states engage in waiver programs that extend Medicaid benefits to assisted living facilities or at-home care programs. Medicaid rules and regulations vary by state and include strict financial and non-financial qualifications.

The reality is that most seniors have too many assets to qualify for Medicaid and are unable to meet the eligibility requirements until they've depleted their life savings paying the nursing home bill. Fortunately, it's never too late to plan, even for those who are already in a nursing home.

MEDICAID COVERS

ROOM
BOARD
PHARMACY
INCIDENTALS

Eligibility Requirements

Non-Financial Eligibility Requirements

In order to meet the non-financial requirements for Medicaid, an individual must be:

- A U.S. citizen or qualified alien
- Age 65 or older, blind, or disabled
- A resident of a Medicaid-approved facility

Financial Eligibility Requirements

The financial requirements for Medicaid are much more complex than the non-financial constraints, and they fall under two major categories: income and assets. Having too much income or too many assets will prevent a person from qualifying for Medicaid benefits.

Income

Income eligibility for Medicaid differs depending on whether the applicant is single or married.

Individual

In most states, an individual's income, including Social Security, pension, and other sources, must be less than the private-pay rate of the facility in order to qualify for Medicaid. A few states apply an income cap separate from the private-pay rate of the nursing home.

Many states apply an additional restriction that requires income exceeding 300% of the Supplemental Security Income (SSI) rate to flow through a Qualified Income Trust (QIT, also known as a "Miller Trust.") For 2020, this limit is $2,349.

What is a QIT?

A QIT is an irrevocable, income-only trust that holds the income of the Medicaid recipient. Each month, income flows into the trust, and the trustee distributes the recipient's allowable expenses. Any funds remaining in the trust after death are subject to recovery by the state Medicaid agency. Most states only require income in excess of the cap flow through the trust; however, when in doubt, plan conservatively and put all the client's income into the trust.

Married Couple

In the case of a married couple, the spouse in the nursing home, also known as the "institutionalized spouse," is subject to the individual rules outlined above.

The spouse living at home, also known as the "community spouse," is not subject to income limitations or restrictions. If a couple receives joint income, however, one-half is attributed to the institutionalized spouse's income for Medicaid purposes.

Assets

For Medicaid purposes, assets are divided into two categories: exempt and countable.

Exempt

Exempt assets are not considered when determining an applicant's Medicaid eligibility. Therefore, the nursing home resident and/or community spouse can hold onto these assets without jeopardizing Medicaid eligibility. Common exempt assets include:

- Primary residence
- One vehicle
- Personal effects and household items
- Life insurance*
- Irrevocable Funeral Expense Trust*

*Life insurance policies and irrevocable funeral expense trusts are only exempt if the value of the policy falls below a certain limit, which varies by state.

Countable

Countable assets include any non-exempt resource or piece of property that holds monetary value and could be liquidated. An applicant's countable assets cannot exceed a certain amount, which varies by state and is different for the institutionalized spouse and the community spouse. Common countable assets include:

- Checking or savings accounts
- CDs or Money Market Accounts
- Stocks, bonds, or mutual funds
- Additional real estate or vehicles (including boats and RVs)
- Land contracts, promissory notes, or annuities with value on the secondary market
- IRAs

*The classification of an IRA as an exempt or countable asset varies by state.

Individual Resource Allowance

The Individual Resource Allowance, which is $2,000 in most states, pertains to the amount of countable assets a single individual or institutionalized spouse can retain while still qualifying for Medicaid benefits. A separate allowance is allotted for the community spouse.

Community Spouse Resource Allowance

The Community Spouse Resource Allowance (CSRA) pertains to the amount of assets a community spouse may retain while still qualifying the institutionalized spouse for Medicaid benefits. This allowance varies by state but is generally between $25,728 and $128,640 in 2020. Some states apply a standard CSRA, while others apply a minimum and maximum allowance, where the CSRA is dependant on the couple's total countable assets.

What's the main reason people entering a nursing home don't automatically qualify for Medicaid?

In most cases, they have too many countable assets and must "spend down" these assets to become eligible. Some can achieve this quickly by purchasing exempt assets or paying off existing debts, while others are stuck with a hefty nursing home bill for several months before falling below the asset limit and becoming Medicaid eligible.

Spousal Impoverishment

One of the biggest issues couples face when trying to qualify for Medicaid is the financial wellbeing of the community spouse. Fortunately, the Medicaid program has adopted certain measures to avoid spousal impoverishment and allow the spouse at home to maintain their current lifestyle within the community. These spousal impoverishment rules consist of asset and income regulations that ensure the community spouse is not left destitute once their loved one enters a nursing home.

Community Spouse Resource Allowance

In addition to the Individual Resource Allowance for the institutionalized spouse, the community spouse is entitled to retain a separate amount known as the Community Spouse Resource Allowance (CSRA).

Though the community spouse must initially spend down to be within their CSRA, once eligibility is achieved, Medicaid will no longer consider any of the community spouse's assets available to the institutionalized spouse. This means the community spouse can retain assets in excess of the CSRA after the institutionalized spouse begins receiving benefits.

Standard CSRA States

In states with a standard CSRA, a married couple must spend-down their excess countable assets to the CSRA in order to qualify the institutionalized spouse for Medicaid. The amount varies by state but is generally capped at $128,640 in 2020.

STANDARD CSRA STATES

AK	CO	FL	GA	HI	IL	LA
ME	MN	MS	SC	WY		

Minimum/Maximum CSRA States

In states with a minimum and maximum CSRA, the community spouse is not automatically entitled to retain a standard amount. Instead, the allowance is based on the couple's total countable assets as of the "snapshot date." From that date, the community spouse is entitled to one-half of the couple's assets, not to exceed the maximum nor fall below the minimum. The minimum and maximum CSRA amounts vary by state but are generally $25,728 and $128,640 in 2020.

MIN/MAX CSRA STATES

AL	AZ	AR	DE	DC	ID	IN
IA	KS	KY	MD	MI	MO	MT
NE	NV	NM	NC	ND	OH	OK
OR	PA	SD	TN	TX	UT	VA
WA	WV	WI				

Minimum/Maximum CSRA Calculation

To determine the CSRA in a minimum/maximum CSRA state, you first need to determine the snapshot date, which is the first date after which the Medicaid applicant spent 30 consecutive days in an institution. Then, take the couple's total countable assets on that date and divide the amount in half.

- If the resulting figure is less than the minimum CSRA, the community spouse may keep the minimum CSRA.
- If the resulting figure is between the minimum and the maximum CSRA, the community spouse may keep that amount.
- If the resulting figure exceeds the maximum CSRA, the community spouse may keep the maximum CSRA.

Monthly Maintenance Needs Allowance

When a Medicaid applicant qualifies for benefits, their income is still subject to paying the nursing home. Apart from a monthly Personal Needs Allowance and certain medical deductions, the rest of their income goes to pay for care and is known as their Medicaid co-pay. If the applicant is married, however, the community spouse may be eligible to receive some of this income, depending on the Monthly Maintenance Needs Allowance (MMNA), which varies by state. If the community spouse's income is less than their state's MMNA, they may be entitled to a portion of the institutionalized spouse's income.

Standard MMNA States

Some states apply a standard MMNA. If the community spouse's income is less than the set allowance, they are entitled to a shift in income of the difference from the institutionalized spouse. The MMNA varies by state but is generally capped at $3,216 in 2020.

Minimum/Maximum MMNA States

In states with a minimum and maximum MMNA, the community spouse is not automatically entitled to receive a standard amount. Instead, the MMNA is based on the total shelter expenses of the community spouse, who is entitled to receive at least the minimum but may be eligible to receive a shift in income from the institutionalized spouse if their shelter expenses are above a certain threshold. The minimum and maximum MMNAs vary by state but are generally $2,113.75 and $3,216 in 2020, respectively.

STANDARD MMNA STATES

AL	AK	GA	HI	IL	IA	LA
MS	ND	OK	SC	TX	WY	

MIN/MAX MMNA STATES

AZ	AR	CO	DE	FL	ID	IN
KS	KY	ME	MD	MI	MN	MO
MT	NE	NV	NM	NC	OH	OR
PA	SD	TN	UT	VA	WA	WV
WI						

Calculating Shelter Expenses

The MMNA is calculated using the Standard Utility Allowance and the Shelter Standard.

The Standard Utility Allowance is a figure that represents the monthly utility bills (electric, water, heat, etc.) paid by the community spouse. Since utility costs can vary by month, the Standard Utility Allowance serves as an estimation, eliminating the need to add up actual out-of-pocket costs each month. The Standard Utility Allowance varies by state.

The Shelter Standard is a figure that represents the monthly shelter expenses (mortgage payments, real estate taxes, Standard Utility Allowance, etc.) of the community spouse. If their total expenses exceed the Shelter Standard, the MMNA is increased dollar-for-dollar from the minimum MMNA to account for the difference, not to exceed the maximum MMNA. The Shelter Standard varies by state but is $634 in 2020 in most states.

Divestment of Assets

To qualify for benefits, Medicaid applicants must spend down their countable assets to be under a certain limit. Medicaid has implemented measures to ensure these applicants don't simply give away their countable assets in order to accelerate their eligibility. The divestment of assets is a big problem for Medicaid applicants, and many do so without even realizing it.

The most important considerations when dealing with the divestment of assets are the lookback period and the penalty period. Medicaid rules stipulate that if an applicant (or their spouse) has transferred assets within the last five years, also known as the lookback period, the applicant will be subject to a period of ineligibility, also known as the penalty period, when they are otherwise eligible for Medicaid.

The lookback period refers to the past:

Now that the applicant is ready to apply for Medicaid, what divestments have already occurred during the last five years?

The penalty period refers to the future:

If they have made divestments within the five-year lookback period, how long will the applicant be ineligible for benefits after applying for Medicaid?

The Lookback Period

The lookback period is the five-year period before someone applies for Medicaid. Caseworkers will "look back" over the last five years to determine if a divestment of assets has occurred. If any transfers have been made within this timeframe, the applicant will be ineligible for a certain period of time based on the total amount divested. Many seniors may not be aware of this rule and could be divesting assets without realizing the consequences it may have on their long-term care needs.

What Qualifies as a Divestment?

A divestment is the transfer of assets for less than fair market value. Many people also refer to divestments of this nature as "gifts." Actions that qualify as a divestment include donating money to charity, giving money or items to loved ones, transferring assets to an irrevocable trust, or selling items for less than fair market value.

In some cases, if a senior pays a family caregiver to assist while they remain in their home, this could also qualify as a divestment. To help support this transaction and prevent its inclusion as a divestment, it's important to create a formal caregiver agreement that outlines the work to be done and the caregiver's compensation. Otherwise, the money paid to the family caregiver could result in a penalty period.

If a couple wants to transfer assets back and forth, they can do so without any penalty up until the institutionalized spouse becomes eligible for Medicaid benefits. If the institutionalized spouse transfers assets to the community spouse after becoming eligible for Medicaid benefits, resulting in an amount that exceeds the Community Spouse Resource Allowance, that will count as a divestment.

The Penalty Period

The penalty period is the phase of ineligibility an applicant is subject to when they have divested assets within the five-year lookback period. The penalty period begins once an applicant is deemed "otherwise eligible" for Medicaid benefits, aside from the ineligible transfer. The length of the penalty period is based on two numbers:

- The total amount of divested assets
- The Divestment Penalty Divisor

Each state has its own Divestment Penalty Divisor that is constructed based on the average private-pay rate for nursing home facilities in that state. To determine the penalty period, the total divestment amount is divided by the Divestment Penalty Divisor. The resulting figure is the length of the penalty period in months (note that some states use a daily Divestment Penalty Divisor instead). Penalty periods have no cap on length. They are solely based on the divestment amount, no matter how large or small, and the state's Divestment Penalty Divisor.

Medicaid Compliant Annuities

A Medicaid Compliant Annuity (MCA) is a powerful tool that helps agents and advisors achieve a better solution for clients facing a costly nursing home stay.

This innovative product helps achieve:

- Accelerated Medicaid Eligibility
- Asset Preservation
- Peace of Mind

An MCA is a single premium immediate annuity (SPIA) that provides income to the owner and contains zero cash value. When properly structured, this annuity functions as a spend-down tool that eliminates excess countable assets, allowing the nursing home resident to become eligible for Medicaid benefits.

Requirements of an MCA

- **Irrevocable**

  The payment amount, term, and parties to the annuity contract cannot be altered.

- **Non-Assignable**

  The annuity contract cannot be assigned to another party or sold on the secondary market.

- **Actuarially Sound**

  The term of the annuity must be fixed and equal to or shorter than the annuitant/owner's Medicaid life expectancy.

- **Equal Payments**

  The annuity contract must provide equal monthly payments with no deferral or balloon payments.

- **State as Beneficiary**

  In most cases, the state Medicaid agency must be named primary death beneficiary to the extent of benefits paid on behalf of the institutionalized individual.

Breaking Down the Beneficiary Requirement

Although most MCAs require the state to be listed as the beneficiary, exceptions do exist. First, if the annuity is purchased in the name of institutionalized spouse, the community spouse may be named primary beneficiary ahead of the state Medicaid agency. Additionally, if the MCA annuitant/owner has a minor or disabled child, the child may be named primary beneficiary while the state is listed as contingent beneficiary. Additional state-specific exceptions may exist.

Although listing the state Medicaid agency as primary beneficiary may deter some people from using an MCA, the funds preserved by accelerating Medicaid eligibility typically outweigh any estate recovery on the annuity. Plus, the state Medicaid agency can only recover if the owner predeceases the annuity term and an outstanding balance is owed to the state. In the case of a community spouse, it's crucial to structure the MCA term appropriately based on the annuitant/owner's health and longevity. In the case of single person, typically no balance is owed to the state Medicaid agency.

Parties to an MCA

Knowing the parties to an MCA is vital to ensuring proper, sound planning. Who owns the annuity? To whom is it payable? What about the beneficiaries? In most cases, MCA contracts consist of five potential parties:

Owner: The owner is the party that purchases the annuity and irrevocably designates the remaining parties of the contract. In the case of a single Medicaid applicant, they are the owner/annuitant. In the case of a married couple, the owner can be the institutionalized spouse or the community spouse, depending on the MCA strategy being used.

Annuitant: With a traditional annuity, the annuitant is the person whose life expectancy the contract is based on. The fixed term for MCAs just can't exceed the annuitant's life expectancy. In all cases, the owner and annuitant are the same person.

Payee: The payee of an MCA is the party that receives the contract payments. In almost all cases, the owner, annuitant, and payee are the same person. The only time this differs in MCA planning is when using the “Name on the Check Rule” strategy. In this strategy the annuitant/owner is the institutionalized spouse and the payee is the community spouse. The MCA term must be equal to or less than the annuitant/owner's life expectancy.

Primary Beneficiary: If the MCA owner predeceases the term, the primary beneficiary is the person or entity that receives the remaining contract payments or a lump sum of the benefits. In most cases, this party is the state Medicaid agency, which can collect up to the amount of benefits provided on behalf of the Medicaid applicant. However, as outlined in this section, exceptions to this stipulation exist.

Contingent Beneficiary: The contingent beneficiary is the party that receives any remaining contract benefits after the primary beneficiary has made its claim. This is typically the spouse, children, or a trust belonging to the owner. In most cases where the MCA was exempt from naming the state Medicaid agency as primary beneficiary, it would be listed as contingent beneficiary.

Product Features

The Medicaid Compliant Annuity is available in 43 states and the District of Columbia. It is irrevocable and non-assignable and typically must name the state Medicaid agency as beneficiary. The product has zero cash value and is considered an income stream only. It can be funded with either non-qualified or tax-qualified funds. The minimum investment amount for an MCA is $5,000, and the minimum term length available in most states is two months.

Why Should My Client Use an MCA?

When entering a nursing home, two of the most common concerns for seniors are finding a way to pay for care and ensuring they don't deplete their assets in the process. The MCA is a quick and easy way to do both. The entire process, from initial quote to receiving the contract in hand, can be completed in as little as seven days.

MCAs allow you to help your clients gain financial relief while enhancing your offering as an agent. Once your clients realize how simple it can be to preserve their hard-earned assets when the alternative is exhausting their life savings, they'll be eternally grateful.

When Should My Client Use an MCA?

By utilizing an MCA, your client can accelerate Medicaid eligibility, even if they are already in a nursing home. A Medicaid Compliant Annuity may be right for your client if they:

- Reside in a Medicaid-approved facility
- Have exhausted Medicare or long-term care insurance benefits
- Pay out-of-pocket for care
- And have excess countable assets

Agent Delivery Requirements

- All annuity contracts should be delivered to the owner within 10 days of the agent's receipt of the policy.
- A delivery receipt accompanies each policy, which must be signed by the owner.
- Any amendments should be signed by the contract's owner and witnessed by the agent.
- Signed delivery receipts and any amendments should be returned to the home office by fax, email or mail.
- No immediate annuity payments will begin until all delivery requirements are received.

Right to Cancel

- The owner may cancel this contract before midnight of the 30th day following the date of its receipt.
- Cancellation shall be accomplished by mailing a written notice to us or our authorized agent.
- Returning the contract is required. Giving the notice or returning this contract by mail is effective on being postmarked and properly addressed with prepaid postage. The money will be returned within 10 days from the date of receipt at the home office.

Misstatements

Any misstatements made in this training material, are purely unintentional. If any conflict between this document and ELCO's contract exist, the contract will govern over any dispute.

AGENT ACKNOWLEDGEMENT

(Annuity)

ELCO Mutual Life & Annuity requires a written acknowledgement by its agents that they have received, reviewed, and have a clear understanding of these Annuity Product Specific Training materials.

As an insurance producer, my signature below acknowledges that:

- ELCO Mutual Life & Annuity has provided me with Product Specific Training regarding their annuity products and that I have read the materials and have a clear understanding of them.
- The Product Specific Training is unrelated to any Annuity Products Course which may be required by any state in which I am licensed and sell annuities.
- If I am required under any state regulation to obtain any Insurance Department approved continuing education or other state required annuity products, I have fulfilled this requirement.
- I must provide proof of my completion of any state required Annuity Products Course for ELCO Mutual Life & Annuity's records prior to submitting an annuity application to them.

Therefore, I hereby certify that I have obtained and reviewed the required Product Specific Training from ELCO Mutual Life & Annuity as provided to me personally by their Agency Department via pdf document.

Complete the signature area below.

Agent (printed name): ______________________________ Date: ______________

Agent's Signature: ______________________________

Agent Number: ______________ (Pending if Agent Code has not been assigned.)

Return this page by fax: 1-224-552-1321 or email: agency@elcomutual.com.

*ELCO Mutual Life and Annuity's Guardian Eagle & SPIA Agent Training Guide does **NOT** replace any state required training course.*

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