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FACT SHEET

# Treatment of Reverse Mortgage/ Home Equity Payments Under the Medi-Cal Program

CANHR is a private, nonprofit 501(c)(3) organization dedicated to improving the quality of care and the quality of life for long term care consumers in California.

Any equity borrowed from your home in the form of a lump sum or a line of credit may be counted as an asset for the purposes of Medi-Cal eligibility.

**Lines of Credit:**

Lines of credit, if not drawn down, are not included in the property reserve and therefore are not countable assets. Most lines of credit are drawn down and immediately spent for a specific purpose and will not be counted as part of the assets, so long as no money from the draw down is carried over to the following month. If the line of credit is drawn down but not spent in the month it was drawn down it is counted as a loan requiring repayment and included in the property reserve, i.e., counted as part of the assets.

**Annuities:**

Some financial advisors or insurance agents promote reverse mortgages and will advise seniors that a lump sum home equity loan should be used to purchase an immediate annuity or deferred annuity. This can adversely affect Medi-Cal eligibility. Not only are the periodic proceeds from annuities counted as income and included in the share of cost, but annuities purchased on or after September 1, 2004 are subject to estate recovery.

**Reverse annuity mortgages (RAMS):**

RAMS are where a lender of a reverse mortgage uses the borrower's home equity to purchase an annuity in order to fund a stream of payments for the borrower. If this happens, then the payments to the borrower are treated as income in the month received. If the annuity is owned by the lender it is not subject to the state's annuity rules. However, if the borrower purchases the annuity, then it is treated as income in the month received, and must meet the state's annuity rules. In addition to that, the annuity will be subject to the recovery provisions. Also, income generated through the use of home equity will create state and federal taxes obligations. California law specifically prohibits lenders from requiring a borrower to purchase an annuity as a condition of obtaining a reverse mortgage loan.

**Other Reverse Mortgage Lump Sums/Stream of Payments:**

Reverse mortgages may come in a single lump sum payment or a series of payments. These payments will be considered property in the month of receipt. The money received needs to spent down before the month ends, otherwise the individual may be disqualified for excess property.

If a reverse mortgage borrower goes into a nursing home for an extended period of time the reverse mortgage loan will become due and the home may have to be sold to in order to pay off the reverse mortgage loan. Any net proceeds from the sale of the home will be consider an asset that may make the borrower ineligible for government benefits.

If the homeowner is a Medi-Cal beneficiary, a reverse mortgage will make it difficult to transfer ownership of the home to another and may result in a Medi-Cal recovery. Medi-Cal recipients with reverse mortgages are strongly advised to seek the advice of a Medi-Cal estate planning attorney to ensure their homes will not be subject to Medi-Cal recovery after they pass away.

Consumers should always beware of phone and mail solicitations and seek third party professional advice before signing any loan documents. **Click here** for more information on reverse mortgage suitability.