FACT SHEET

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

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:

An open line of credit is not considered a countable asset for Medi-Cal eligibility. However, if you are on Medi-Cal, when you borrow money from your line of credit, that money will be counted as property in the month received (MEDIL 20-34). Most lines of credit are drawn down and immediately spent on a specific purpose. If you borrow from your line of credit but do not spend down the money below the Medi-Cal asset limit by the end of the month, those funds will be counted as part of your assets, and could impact your eligibility.

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 have a negative effect on Medi-Cal eligibility. Not only are the periodic payments 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. Those 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, the annuity will be subject to the recovery provisions. Income generated through the use of home equity can create state and federal tax 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 received (ACWDL 08-17). The money received needs to spent down below the Medi-Cal property limit before the month ends, otherwise the individual may be disqualified for being over the asset limit.

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 loan. Any net proceeds from the sale of the home will be considered 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 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. Visit CANHR's Home Equity Protection Program website for more information on reverse mortgage suitability.