
State Medicaid Manual

Part 3 - Eligibility

Department of Health and
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These instructions provide further policy clarification on mandatory and optional recovery when a Medicaid beneficiary, permanently institutionalized, any age, and age 55 or older, receives services that are specified as collectable services under the State's plan for estate recovery.

Section 3810, Medicaid Estate Recoveries.--These instructions: (1) identify the groups of dual eligibles for Medicaid estate recovery purposes; (2) explain that premium payments made to a managed care organization on behalf of a Medicaid beneficiary are collected either in whole or in part of the claim against the individual's estate; (3) identify assets and resources of Native Americans that are exempt from Medicaid estate recovery, and those that are recoverable; (4) exclude from Medicaid estate recovery government reparation payments to special populations; (5) allow States to collect against an annuity if the State uses State probate law to define estate, and the law includes annuities, or if the State uses the expanded definition of estate; and (6) defines a home of modest value.

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3810. MEDICAID ESTATE RECOVERIES

Under the estate recoveries provisions in §1917(b) of the Act, you must recover certain Medicaid benefits correctly paid on behalf of an individual. The following instructions explain the rules under which you must recover from an individual's estate Medicaid benefits correctly paid and incorrectly paid.

A. Adjustment and Recovery.--You must seek adjustment or recovery of medical assistance correctly paid on behalf of an individual under your State plan as follows.

1. Permanently Institutionalized Individuals.--All States that impose the Tax Equity Fiscal Responsibility Act (TEFRA) liens are required to determine if an individual is permanently institutionalized. TEFRA liens are pre-death liens that are placed upon the home of living beneficiaries who have been determined (after notice and opportunity for a hearing) to be permanently institutionalized. These liens must follow rules set out in the TEFRA of 1982. In the case of permanently institutionalized individuals who the State determines cannot reasonably be expected to be discharged and return home, including individuals of any age, you must seek adjustment or recovery from the individual's estate or upon sale of the property subject to a lien, at a minimum, of amounts spent by Medicaid on the person's behalf for services provided in a nursing facility, ICF/MR, or other medical institution. The date on which you determine the individual to be permanently institutionalized does not affect which expenditures you must or may recover from the individual or his/ her estate. If you elect to recover all medical assistance, it would include assistance furnished prior to the time you determined the individual to be permanently institutionalized. If you only elect to recover for expenditures for institutional services, you must recover for all institutional services furnished to the individual, regardless of whether they were furnished during the current stay in the facility. Your State plan must reflect the medical assistance subject to recovery. Recoveries must be made from the individual's estate (after death) or from the proceeds of the sale of the property on which a lien has been placed.

Permanently institutionalized individuals are persons of any age who are inpatients in a nursing facility, ICF/MR, or other medical institution as defined in 42 CFR 435.1009, and who must, as a condition of receiving services in the institution under your State plan, apply their income to the cost of care, as provided in 42 CFR 435.725, 42 CFR 435.733, 42 CFR 435.832, and 42 CFR 436.832.

If you use TEFRA liens, you must specify in your State plan the process by which you will determine that an institutionalized individual cannot reasonably be expected to be discharged from the medical institution and return home, the notice to be given the individual, the process by which the individual will be given the opportunity for a hearing, the hearing procedures, and by whom and on what basis the determination that the individual cannot reasonably be expected to be discharged from the institution will be made. States are not required to use the Supplemental Security Income intent to return home rule for purposes of determining whether an individual is permanently institutionalized for purposes of estate recovery. This rule applies only to eligibility determinations.

2. Individuals Age 55 or Older.--You must seek adjustment or recovery from the estate of an individual who was age 55 or older when that person received medical assistance. You must recover up to the total amount spent by Medicaid on the person's behalf, for spending on nursing facility services, (which includes skilled nursing facility and intermediate care facility for the mentally retarded services), home and community based services, as defined in §§1915(c) and (d), 1929, and 1930 of the Act, and related hospital and prescription drug services. Related hospital and

prescription drug services are any hospital care or prescription services provided to an individual while receiving nursing facility services and home and community-based services. At your option, you may also recover additional amounts up to the total amount spent on the individual's behalf for medical assistance for any **or all** other items or services under your State plan. List these other items and services in your State plan. Recovery is limited to medical assistance for services received at age 55 or thereafter.

3. **Dual Eligibles.**--Dual eligibles are individuals who are entitled to Medicare Hospital Insurance under Part A and/or Supplementary Medical Insurance under Part B and are eligible for some form of Medicaid benefit. Depending on the eligibility category, Medicaid may provide benefits limited to payment of Medicare cost-sharing expenses (premiums, deductibles, and coinsurance) or only Medicare Part B premiums, and for some groups full Medicaid benefits. (See SMM sections 3489-3492 for the eligibility criteria and benefits available.)

a. **Mandatory Estate Recovery.**--You must recover from the estate of the following dual eligibles who receive full Medicaid benefits in addition to Medicare: (1) Qualified Medicare Beneficiaries with full Medicaid benefits (QMB Plus), (2) Specified Low-Income Medicare Beneficiaries with full Medicaid benefits (SLMB Plus), and (3) Medicaid Only Dual Eligibles (non QMB, SLMB, or QDWI). You must recover from the individual's estate for the Medicaid mandatory services (nursing facility, home and community-based services, and related prescription and hospital services) as well as for optional medical assistance recovery specified in the State plan for the groups described. In addition, you must include in your claim against the estate, medical assistance amounts expended for Medicare cost-sharing and/or Medicare premiums.

b. **Optional Estate Recovery.**--Low income Medicare beneficiaries, who are receiving assistance from Medicaid agencies in the payment of their Medicare copayments and/or deductibles, can be exempt from Medicaid estate recovery, at State option, because they are not entitled to, or receiving, any Medicaid mandatory services which are subject to recovery.

4. **Individuals With Long Term Care Insurance Policies.**--

a. **Adjustment or Recovery Required.**--Except as provided in §3810.A.4.b, you must seek adjustment or recovery from the individual's estate for all Medicaid costs for nursing facility and other long term care services if: (1) assets or resources are disregarded to the extent of payments made under a long term care insurance policy; or (2) assets or resources are disregarded because the individual received (or is entitled to receive) benefits under a long term care insurance policy.

b. **Assets or Resources Disregarded/Not Disregarded.**--If you had an approved State plan, as of May 14, 1993, (California, Connecticut, Indiana, Iowa, and New York) which provided for the disregard of assets or resources in determining eligibility for medical assistance either to the extent that payments are made under a long term care insurance policy, or because an individual has received or is entitled to receive benefits under such a policy, you are not required to seek adjustment or recovery from the individual's estate for Medicaid costs for nursing facility and other Medicaid long term care expenses. While HCFA cannot compel you to recover any amounts from the estates of these individuals, you are free to do so if consistent with the terms of your State plan.

5. Adjustment or Recovery Limitations.--Adjustment or recovery can only be made after the death of the individual's surviving spouse, if any, and only at a time when the individual has no surviving child under age 21, or a blind or disabled child as defined in §1614 of the Act. For Guam, Puerto Rico, and the Virgin Islands, any surviving child's blindness or permanent or total disability would be determined under the definitions found in the State plan program for providing assistance to the blind or permanently and totally disabled. If a lien is placed on an individual's home, adjustment or recovery can only be made when: (1) there is no sibling of the individual residing in the home, who has resided there for at least one year immediately before the date of the individual's admission to the institution, and has resided there on a continuous basis since that time; and (2) there is no son or daughter of the individual residing in the home, who has resided there for at least two years immediately before the date of the individual's admission to the institution, has resided there on a continuous basis since that time, and can establish to the agency's satisfaction that he/she has been providing care which permitted the individual to reside at home rather than in an institution.

6. Estate Recovery and Managed Care.--When a Medicaid beneficiary, permanently institutionalized, or age 55 or older, is enrolled (either voluntarily or mandatorily) in a managed care organization and services are provided by the managed care organization that are included under the State's plan for estate recovery, you must seek adjustment or recovery from the individual's estate for the premium payments in your claim against the estate. When the beneficiary enrolls in the managed care organization, you must provide a separate notice to the beneficiary that explains that the premium payments made to the managed care organization are included either in whole or in part in the claim against the estate.

o If you have elected in your State plan amendment to recover for all Medicaid services, then you must recover from the individual's estate the total capitation rate for the period the beneficiary was enrolled in the managed care organization.

o If you have elected in your State plan amendment to recover for some services covered under the State plan, but not all services, then you must recover from the individual's estate that portion of the capitation payment that is attributable to the recoverable services, based on the most appropriate actuarial analysis determined by the State.

7. American Indians and Alaska Natives.--The Federal government has a unique trust responsibility for American Indian (AI) Tribes and Alaska Native (AN) Villages and their members. Section 1917(b)(3) of the Social Security Act gives the Secretary authority to establish standards for hardship. This includes exemptions from estate recovery for certain assets and resources.

a. American Indians and Alaska Natives: Income, Resources and Property Exempt from Medicaid Estate Recovery.--The following AI/AN income, resources, and property are exempt from Medicaid estate recovery:

1. Certain AI/AN income and resources (such as interests in and income derived from Tribal land and other resources currently held in trust status and judgment funds from the Indian Claims Commission and the U.S. Claims Court) that are exempt from Medicaid estate recovery by other laws and regulations;

2. Ownership interest in trust or non-trust property, including real property and improvements:

a. Located on a reservation (any federally recognized Indian Tribe's reservation, Pueblo, or Colony, including former reservations in Oklahoma, Alaska Native regions established by Alaska Native Claims Settlement Act and Indian allotments) or near a reservation as designated and approved by the Bureau of Indian Affairs of the U.S. Department of the Interior; or

b. For any federally -recognized Tribe not described in (a), located within the most recent boundaries of a prior Federal reservation.

c. Protection of non-trust property described in (a) and (b) is limited to circumstances when it passes from an Indian (as defined in section 4 of the Indian Health Care Improvement Act) to one or more relatives (by blood, adoption, or marriage), including Indians not enrolled as members of a Tribe and non-Indians, such as spouses and step-children, that their culture would nevertheless protect as family members; to a Tribe or Tribal organization; and/or to one or more Indians;

3. Income left as a remainder in an estate derived from property protected in 2 above, that was either collected by an Indian, or by a Tribe or Tribal organization and distributed to Indian(s), as long as the individual can clearly trace it as coming from the protected property.

4. Ownership interests left as a remainder in an estate in rents, leases, royalties, or usage rights related to natural resources (including extraction of natural resources or harvesting of timber, other plants and plant products, animals, fish, and shellfish) resulting from the exercise of Federally-protected rights, and income either collected by an Indian, or by a Tribe or Tribal organization and distributed to Indian(s) derived from these sources as long as the individual can clearly trace it as coming from protected sources; and

5. Ownership interests in or usage rights to items not covered by 1-4 above that have unique religious, spiritual, traditional, and/or cultural significance or rights that support subsistence or a traditional life style according to applicable Tribal law or custom.

b. American Indians and Alaska Natives Income, Resources and Property Not Exempt from Medicaid Estate Recovery.--You may recover the following income, resources and property from the estates of American Indians and Alaska Natives:

1. Ownership interests in assets and property, both real and personal, that are not described in 7.a, items 1-5 above.

2. Any income and assets left as a remainder in an estate that do not derive from protected property or sources in 7.a, items 1-5.

8. Reparation Payments to Individuals.--Government reparation payments to special populations are exempt from Medicaid estate recovery.

B. Definition of Estate.--Specify in your State plan the definition of estate that will apply.

1. Probate Definition.--At a minimum, you must include all real and personal property and other assets included within the individual's estate as provided in your State probate law.

2. Optional Definition.--In addition to property and assets under the probate definition, you may include any other real and personal property and other assets in which the individual had

any legal title or interest at the time of death (to the extent of such interest). This includes assets conveyed to a survivor, heir, or assign of the deceased through joint tenancy, tenancy in common survivorship, life estate, living trust, or other arrangement.

3. Special Rule for Individuals With Long Term Care Insurance.--In the case of individuals described in §3810.A.4.(a), you must use the definition of estate as described in subsection B.2.

4. Annuities.--You may collect against an annuity that was the property of the deceased Medicaid beneficiary if you use State probate law to define estate, and the law includes annuities, or, if you use the expanded definition of estate found at §3810.B.2. When using the expanded definition of estate, an annuity is considered an "other arrangement." If you use the expanded definition of estate, this provision is effective for deaths or estates that are opened 90 days after the publication of this manual provision and after the State meets applicable State and Federal law for appropriate notice and due process.

C. Undue Hardship.--Where estate recovery would work an undue hardship, adjustment or recovery is waived. Establish procedures and standards for waiving estate recoveries when they would cause undue hardship. You may limit the waiver to the period during which the undue hardship circumstances continue to exist. Describe your policy in your State plan. You have flexibility in implementing an undue hardship provision. However, your undue hardship waiver protection does not apply to individuals with long term care insurance policies who became Medicaid eligible by virtue of disregarding assets because of payments made by a long term care insurance policy or because of entitlement to receive benefits under a long term care insurance policy. California, Connecticut, Indiana, Iowa, and New York must apply their undue hardship rules to all individuals, including those eligible for Medicaid by virtue of State plan provisions related to the purchase of a long term care insurance policy.

1. Undue Hardship Defined.--The legislative history of §1917 of the Act states that the Secretary should provide for special consideration of cases in which the estate subject to recovery is: (1) the sole income-producing asset of survivors (where such income is limited), such as a family farm or other family business; (2) a homestead of modest value; or (3) other compelling circumstances. HCFA suggests that you consider the examples listed above in developing your hardship waiver rules, but does not require you to incorporate these examples once you have considered whether they are appropriate for determining the existence of an undue hardship.

In considering your criteria, you may conclude that an undue hardship does not exist if the individual created the hardship by resorting to estate planning methods under which the individual illegally divested assets in order to avoid estate recovery.

In defining a homestead of modest value, the methodology the State uses to set a threshold level for the market value of a "homestead of modest value" cannot be set so high as to negate the intent of the estate recovery program. For purposes of this provision, a homestead of "modest value" can be defined as fifty percent (50%) or less of the average price of homes in the county where the homestead is located, as of the date of the beneficiary's death. Describe your methodology for determining a home of modest value in your State plan.

D. Collection Procedures.--You must adopt procedures under which individuals who will be affected by recovery of amounts of medical assistance will have the right to apply for an undue hardship waiver. These procedures must, at a minimum, provide for advance notice of any proposed recovery. They must also specify the method for applying for a waiver, the hearing and appeal rights, and the time frames involved. You should specify the procedures for collection, which must be reasonable. In the situation where recovery is not waived because of undue hardship and heirs of the estate from which recovery is sought wish to satisfy your recovery claim without a

non-liquid asset subject to recovery, you may establish a reasonable payment schedule subject to reasonable interest. You may also undertake partial recovery to avoid an undue hardship situation.

E. Adjustment or Recovery Not Cost Effective.--You may waive adjustment or recovery in cases in which it is not cost effective for you to recover from an individual's estate. The individual does not need to assert undue hardship. You may determine that an undue hardship exists when it would not be cost effective to recover the assistance paid. You may adopt your own reasonable definition of cost effective. However, any methodology you use for determining cost-effectiveness must be included in your State plan. If you made individuals eligible for Medicaid because of a long term care insurance, you are restricted from using this waiver authority unless you had as of May 14, 1993, an approved State plan which provided for long term care insurance-related disregards from income. In that event, you can use the undue hardship exception as a basis for applying a cost effectiveness test to individuals who became eligible based upon long term care insurance-related disregards.

F. Placement of TEFRA Liens.--You are not required to use TEFRA liens in §1917(a) of the Act. Section 13612 of OBRA 1993 did not mandate the use of TEFRA liens. The TEFRA liens allow you to place liens on certain types of property and recover specific types of payments as described in subsection F.1. and F.2. You may use liens as a mechanism/tool to recover medical assistance incorrectly paid as indicated in F.1, or correctly paid on behalf of certain permanently institutionalized individuals, as indicated in subsection F.2.

1. Incorrect Payments.--You may place a lien against an individual's property both personal and real, before his or her death because of Medicaid claims paid or to be paid on behalf of that individual if a court determines that benefits were incorrectly paid for that individual.

2. Correct Payments.--You may place a TEFRA lien against the real property of an individual of any age before his or her death because of Medicaid claims paid or to be paid for that individual when: (1) he/she is an inpatient of a medical institution and must, as a condition of receiving services in the institution under State plan, apply his/her income to the cost of care (as provided in 42 CFR 435.725, 42 CFR 435.733, 42 CFR 435.832, and 42 CFR 436.832), and (2) the agency determines that the person cannot reasonably be expected to return home as specified in §3810.A.1. The State's authority to place a lien after the individual's death is not restricted by the TEFRA lien provisions.

3. Restriction on Placement of TEFRA Liens.--You may not place a TEFRA lien, as indicated in subsection F.2., on an individual's home if any of the following individuals are lawfully residing in the home: (1) the spouse, (2) the individual's child who is under age 21 or blind or disabled, as defined in §1614 of the Act, in States (or blind or permanently and totally disabled in Guam, Puerto Rico, and the Virgin Islands), or (3) the individual's sibling (who has an equity interest in the home), and who was residing in the individual's home for at least one year immediately before the date the individual was admitted to the medical institution.

4. Termination of Liens.--You must dissolve any lien imposed as provided in subsection F.2 on an individual's real property when that individual is discharged from the medical institution and returns home.

G. Notice.--

1. General Notice.--You should provide notice to individuals at the time of application for Medicaid that explains the estate recovery program in your State.

2. Recovery or Adjustment Notice.--You should give a specific notice to individuals

affected by the proposed recovery whenever you seek adjustment or recovery. The notice should be served on the executor or legally authorized representative of the individual's estate, or, **if these are not known to the State, other survivors or heirs.** The executor or legally authorized representative should be required to notify individuals who would be affected by the proposed recovery. In the situation where there is no executor or legally authorized representative, the State should notify the family or the heirs. The notice should include, at a minimum, the action the State intends to take, reason for the action, individual's right to a hearing (42 CFR Subpart E), method by which he/she may obtain a hearing, procedures for applying for a hardship waiver, and the amount to be recovered. An administrative hearing is not required if State law provides for court review as the next appellate step.

H. Effective Date of New Provision--Section 13612 of OBRA 1993 does not apply to individuals who died before October 1, 1993. This section applies to Medicaid payments beginning on or after October 1, 1993.

I. Effective Date - States With Estate Recovery Programs in Effect Prior to October 1, 1993.- If you had an estate recovery program approved under your State plan and in operation prior to October 1, 1993, for individuals of any age who are determined permanently institutionalized prior to October 1, 1993, you may recover from the estate or upon sale of the property subject to a lien for all services correctly paid before October 1, 1993. You may also recover for services paid for before October 1, 1993, from the estate of an individual age 65 or older when that person received medical assistance. Recovery for these services is in accord with the features of your approved plan in effect prior to October 1, 1993.

