

Of actuarial tables and 'in pay status' IRAs

Lynn Brenner | Family Finance

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I've read many articles in Newsday saying that once an IRA is in "pay status," the principal isn't considered a resource that must be spent before you become Medicaid eligible. However, I don't recall your talking about how the required minimum distribution from the IRA is calculated.

My 84-year-old mother-in-law's only asset is a \$100,000 IRA in a Vanguard fund. For the last 14 years, Vanguard has calculated her RMD using the life expectancy Table III from IRS publication 590, which currently gives her a 15.5-year life expectancy. But when we applied for Medicaid in Nassau County, we were told that NYS Medicaid uses a different table, which gives her a life expectancy of only 6.88 years. Since the RMD is the IRA's value divided by life expectancy, a shorter life expectancy results in a bigger RMD. Medicaid said if we didn't take out the larger RMD, the IRA would not be considered in "pay status." Which calculation is correct? Has anyone challenged Medicaid's using the shorter life expectancy?

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You've given a very accurate summary of Medicaid's new position -- and of the result, namely bigger IRA distributions that must be used to pay for long-term care. There's no current court challenge to this requirement that people use a shorter life expectancy table.

As you say, a person whose IRA is "in pay status" doesn't have to spend down the principal to qualify for Medicaid nursing home benefits. Your IRA is "in pay status" when you're taking annual distributions, as you must when you're older than 70 1/2. The distributions have to be spent for your care, but the principal is off the table. (This rule also applies to 401(k), 403(b), 457, and Keogh plans from which you're taking required distributions.)

Tax law says required minimum distributions are based on the IRA owner's life expectancy, as shown on the IRS Uniform Lifetime Distributions actuarial table. That's the table Vanguard has used to determine your mother-in-law's annual distributions. Her RMDs have been small because the IRS table is generous in its assumptions about how long people are going to live. Your mother-in-law's 15.5-year life expectancy gives her a \$6,452 required distribution from her \$100,000 IRA.

But the IRS doesn't have the only actuarial table in town -- and there's the rub.

Historically, Medicaid applicants have been allowed to use the IRS table, says Bernard A. Krooks, a New York City elder-law attorney, even though Medicaid rules don't mention it. But recently, several counties (including Nassau) have started requiring Medicaid nursing home beneficiaries to base their IRA distributions on a different actuarial table.

"The IRS table is generous because it uses joint life expectancy even for people who are single,"

explains Krooks. If male life expectancy at your age is 12 years, for example, and female life expectancy is 15 years, the IRS table gives you 27 years. By contrast, Medicaid's actuarial table uses single life expectancy. That's why an 84-year-old who has a 15.5 year life expectancy on the IRS table has a 6.88 year life expectancy on the Medicaid table. The result: Her required minimum distribution from a \$100,000 IRA rises from \$6,452 to \$14,535.

You're not alone. Medicaid recipients must be recertified to receive benefits every year. Krooks says that, in some counties, people who were originally allowed to use the IRS table to calculate their RMDs are now being told they must switch to Medicaid's actuarial table.

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