TAX & WEALTH ADVISOR ALERT: IRREVOCABLE INCOME-ONLY TRUSTS, HOW THEY CAN HELP YOU APPLY FOR MEDICAID AND WHEN THEY SHOULD BE AVOIDED.

An irrevocable income-only trust can be an indispensable tool when planning for retirement and long-term care expenses. It's important to know how these trusts work, how they help you qualify for Medicaid, and how to set one up.

What Are Irrevocable Income-Only Trusts?

Irrevocable income-only trusts are used for Medicaid planning. They are a type of living trust that protects assets from being sold to cover long-term care expenses such as nursing homes. These assets are placed in a trust so that they can be passed down to beneficiaries. The beneficiary of the trust is only entitled to receive the trust income; the trust principal is not accessible.

You can use an irrevocable income-only trust to qualify for Medicaid. You make your assets the trust principal, which becomes inaccessible to you. By doing so, you can only access the trust income, which is subsidized to pay for your nursing home care, and then Medicaid pays the rest. However, the amount Medicaid pays must be under $2,000 by the end of each month, and if not, it may increase the amount you pay out of pocket.

Qualifying for Medicaid

Although you can use this type of trust to help qualify for Medicaid, keep in mind, it creates a waiting period of ineligibility. Each state has laws about when you can start receiving Medicaid benefits after transferring funds to an irrevocable income-only trust.

The Benefits and Downsides of Irrevocable Income-Only Trusts

An irrevocable income-only trust has several advantages, including:

- You retain the ability to qualify for Medicaid benefits and still preserve some assets for your loved ones.
- In the interim, between setting up an irrevocable income-only trust and entering a

nursing home, you may establish an income stream for yourself.

There are some downsides to keep in mind when considering creating an irrevocable income-only trust, such as:

- You lose control over your assets in the trust. This is because the trust is irrevocable, which means you cannot change or terminate the trust.
- Medicaid's look-back period is 60 months, so if you become ill before this period ends, you are left without funds to pay for nursing home bills. Medicaid will not cover these costs. You should not put *all* of your assets in the trust for this reason.
- If you are young and healthy, a **revocable trust** is a much better structure for your estate plan because it allows you to change your estate plan and, more importantly, it keeps you in control of your assets.

How to Set Up an Irrevocable Income-Only Trust

To start an irrevocable income-only trust, you'll need to gather some important information. Make a list of your assets and income from all sources, including all assets transferred within the last five years. Then, determine whether your resources are exempt, non-exempt, or inaccessible for Medicaid purposes. Finally, consult with an experienced Medicaid law attorney to help you finalize and set up the fund.

Working with an experienced attorney can help you better ascertain your cash flow needs. You will have to ensure your present income needs are met and that you have sufficient funds to pay your nursing home bills if you unexpectedly become ill.

If you'd like further information about this topic, please contact a member of our Estate and Business Succession Planning team.