



# Can Life Insurance Affect Your Medicaid Eligibility?



In order to qualify for Medicaid, you can't have more than \$2,000 in assets (in most states). Many people forget about life insurance when calculating their assets, but depending on the type of life insurance and the value of the policy, it can count as an asset.

Life insurance policies are usually either "term" life insurance or "whole" life insurance. If a Medicaid applicant has term life insurance, it doesn't count as an asset and won't affect Medicaid eligibility because this form of life insurance does not have an accumulated cash value. On the other hand, whole life insurance accumulates a cash value that the owner can access, so it can be counted as an asset.

That said, Medicaid law exempts small whole life insurance policies from the calculation of assets. If the policy's face value is less than \$1,500, then it won't count as an asset for Medicaid eligibility purposes. However, if the policy's face value is more than \$1,500, the cash surrender value becomes an available asset.

For example, suppose a Medicaid applicant has a whole life insurance policy with a \$1,500 death benefit and a \$700 cash surrender value (the amount you would get if you cash in the policy before death). The policy is exempt and won't be used to determine the applicant's eligibility for Medicaid. However, if the death benefit is \$1,750 and the cash value is \$700. The cash surrender value will be counted toward the \$2,000 asset limit.

If you have a life insurance policy that may disqualify you from Medicaid, you have a few options:

- Surrender the policy and spend down the cash value.
- Transfer ownership of the policy to your spouse or to a special needs trust. If you transfer the policy to your spouse, the cash value would then be part of the spouse's [community resource allowance](#).
- Transfer ownership of the policy to a funeral home. The policy can be used to pay for your funeral expenses, which is an exempt asset.
- Take out a loan on the cash value. This reduces the cash value and the death benefit, but keeps the policy in place.

Before taking any actions with a life insurance policy, you should talk to your [attorney to find](#) out what is the best strategy for you.