FACT SHEET

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

CANHR is a private, nonprofit 501(c)(3) organization dedicated to improving the quality of care and the quality of life for long term care consumers in California.

As of January 1, 2024, Medi-Cal no longer counts assets to determine eligibility. It is important to know that different types of reverse mortgages or home equity payments may be treated differently under Medi-Cal eligibility rules.

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. Because of the changes to Medi-Cal asset rules, a , line of credit no longer needs to be spent down immediately, as Medi-Cal no longer has an asset limit.

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. Annuities may have a negative effect on Medi-Cal eligibility. For instance, periodic payments from annuities counted are as income in the month received and included in the monthly share of cost. 22 CCR § 50507. Also, annuities purchased on or after September 1, 2004 are subject to estate recovery.

Reverse annuity mortgages (RAMS):

Reverse annuity mortgages (RAMS) are home equity conversion plans where a lender, through a formal mortgage contract, pays out a percentage of the home equity for a specified period of time or for the life of the borrower. The homeowner receives funds periodically for the duration of the lending period. At the end of the lending period the loan must be repaid.

If the lender funds its own payments to the borrower, without utilizing an annuity, then the payments are property in the month of receipt, which would no longer count for Medi-Cal.

If the lender purchases an annuity to fund these periodic payments to the borrower, and the borrower's documents identify the loan as an annuity, then the payments from the annuity are considered unearned income pursuant to Section 50507. See MEDIL I20-34.

It is worth noting that 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. Also, 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. Cal Civ Code § 1923.2(i)

Other Reverse Mortgage Lump Sums/Stream of Payments:

Reverse mortgage loans allow homeowners to borrow money using their home as security for the loan. Borrowers do not make monthly mortgage payments. The loan is repaid when the borrower no longer lives in the home or dies. However, the balance of the loan grows each month because interest and fees are added to the loan balance each month.

Reverse mortgages may come in a single lump sum payment or a series of payments. For Medi-Cal beneficiaries, payments will be considered property in the month received and will not be counted for Medi-Cal purposes (ACWDL 08-17).

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. If the loan is not paid, the home could be sold in foreclosure.

If the homeowner is a Medi-Cal beneficiary, a reverse mortgage may make it difficult to transfer ownership of the home to another person and could result in Medi-Cal recovery if the property is in probate. 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.