



MEDICAID PLANNING GUIDE

# Protecting Your Family's Assets from Nursing Home Costs

A plain-language guide for South Dakota families and elderly residents — covering the 5-year lookback rule, irrevocable trusts, and Medicaid-compliant annuities.

THE 5-YEAR LOOKBACK

IRREVOCABLE TRUSTS

MEDICAID ANNUITIES

Nursing home care in South Dakota typically costs between **\$6,000 and \$10,000 per month**. Without planning, those costs can rapidly deplete a lifetime of savings — leaving a spouse or heirs with little to nothing. Medicaid can cover long-term care, but only after you've spent down nearly all personal assets. This guide explains the three most important legal strategies available to South Dakota families who want to protect what they've worked for.

1

## Why Nursing Home Costs Put Families at Risk

Understanding the financial stakes before planning begins

Medicaid is a joint federal–state program that pays for long-term nursing home care — but only after applicants spend down their assets to near zero. In South Dakota, a single applicant may keep only approximately **\$2,000** in countable assets. A married couple receives additional protections for the spouse remaining at home, but the rules are still strict.

The goal of Medicaid planning is not to circumvent the system — it's to use legal strategies that Congress and the states have specifically designed to help families protect a reasonable portion of their savings while qualifying for benefits they've contributed to through taxes.

**Key insight:** The earlier you begin planning, the more options you have and the more assets you can protect. Many strategies require five or more years of lead time to be fully effective.

2

## The 5-Year Lookback Period

What Medicaid reviews before approving your application

When you apply for Medicaid to cover nursing home care, South Dakota — like all states — reviews **every financial transaction made in the 60 months (5 years) before your application date**. This is called the



lookback period.

If you gave away money, transferred property, or moved assets to a family member or trust during that window, Medicaid may treat those as **disqualifying transfers** — resulting in a penalty period during which Medicaid will not pay for your care, even if you'd otherwise qualify.

**How the penalty period is calculated:**

- 1 **TRANSFER MADE**  
You give \$60,000 to an adult child. The lookback clock begins.
- 2 **CARE IS NEEDED WITHIN 5 YEARS**  
You apply for Medicaid — and the gift is discovered during the review.
- 3 **PENALTY PERIOD IS CALCULATED**  
South Dakota divides the transferred amount by the average monthly nursing home cost (~\$7,000) to set the penalty. A \$60,000 transfer creates roughly an 8-month penalty period.

Transfers THAT ARE reviewed	Transfers generally EXEMPT
Gifts of cash or property to children	Transfers between spouses
Selling a home below fair market value	Transfers to a disabled child
Moving money into most trusts	Transfers of home to a caregiver child (rules apply)
Paying family members above fair market value	Payments for legitimate services at fair value

**Remember:** The lookback period does not prevent planning — it means planning must start early. A transfer or trust created today starts your 5-year clock immediately.

**3 Irrevocable Medicaid Asset Protection Trusts (MAPT)**  
The gold standard for long-term asset protection

A **Medicaid Asset Protection Trust (MAPT)** is a legal arrangement in which you transfer assets — typically your home, savings, or investments — into an irrevocable trust. Because those assets are no longer legally yours, they are generally not counted against you when Medicaid determines eligibility.

The trust must be funded **more than 5 years before a Medicaid application** to avoid lookback penalties. A MAPT created and funded today starts your lookback clock now — and if you remain healthy for five years,



those assets are shielded from Medicaid spend-down.

<b>WHAT IT PROTECTS</b>	Your home, non-retirement investments, savings accounts, and other non-IRA assets placed in the trust.
<b>WHAT YOU GIVE UP</b>	Direct control and the ability to take assets back. The trust is permanent — that's what makes it effective.
<b>WHAT YOU KEEP</b>	Typically: the right to live in a home held in trust, and income generated by trust assets.
<b>WHO MANAGES IT</b>	A trustee you appoint — often an adult child or trusted third party — manages assets on behalf of named beneficiaries.

**Best for:** Families who are currently healthy with 5 or more years before they realistically expect to need nursing home care. The MAPT is the strongest available tool for permanently removing assets from Medicaid's reach.

## 4 Medicaid-Compliant Fixed Income Annuities

Converting assets to income — even in a crisis

A **fixed income annuity** allows you to convert a lump sum of countable assets into a stream of regular income payments. Once annuitized, that money is no longer sitting in an account — it becomes income — and may no longer count as an 'asset' for Medicaid eligibility purposes.

The most powerful planning feature is selecting an annuity that can be **annuitized at any time**. When care becomes necessary, you can immediately convert the annuity into a monthly income stream — no waiting period required. This makes annuities especially valuable for **crisis planning**, when nursing home care is needed soon or right now.

### How it works — step by step:

- 1 PURCHASE A FIXED DEFERRED ANNUITY**

Funds accumulate with interest. The annuity is a countable asset at this stage, but it is positioned for immediate action when care is needed.
- 2 NURSING HOME CARE BECOMES NECESSARY**

You or your family decide to pursue Medicaid. You immediately annuitize — converting the lump sum into fixed monthly payments for a defined period.



3

**MEDICAID ELIGIBILITY IS ACHIEVED**

The former asset is now income. With other assets reduced to the allowable limit, you may qualify. Annuity income helps cover your 'patient pay amount' — the share Medicaid does not cover.

**Federal requirements for a Medicaid-compliant annuity:**

- Irrevocable and non-assignable once annuitized — payments cannot be stopped or surrendered.
- Actuarially sound — the total payment period must fall within your actuarial life expectancy.
- Payments must begin immediately upon annuitization — no deferral period allowed.
- South Dakota Medicaid must be named as primary beneficiary, up to the total amount it paid for your care.

**Best for:** Families in a crisis situation where nursing home care is needed now or very soon. Because there is no separate lookback for a proper annuitization, this strategy can accelerate Medicaid eligibility without the 5-year wait.

**5** Choosing the Right Strategy  
Match your timeline to the best available tool

Your timeline	Recommended strategy	Why it fits
5+ years before possible care	Irrevocable MAPT	Starts the 5-year clock now. Strongest long-term protection for home and savings.
2–5 years out	MAPT now + fixed annuity as backup	Trust covers long-term assets; annuity provides rapid-response flexibility if care comes earlier than expected.
Care needed soon or now	Medicaid-compliant annuity	No 5-year wait. Fastest way to convert assets to income and reach Medicaid eligibility.

**6** Countable vs. Exempt Assets in South Dakota  
What Medicaid looks at — and what is already protected

Countable assets (must be spent down)	Exempt assets (generally not counted)
Checking and savings accounts	Primary residence (with conditions)
Stocks, bonds, and mutual funds	One vehicle



CDs and money market accounts	Personal property and household goods
Additional real estate / investment property	Prepaid irrevocable funeral plan
Most annuities (before annuitization)	Term life insurance with no cash value
Cash value of whole/universal life insurance	Wedding and engagement rings

Note: Retirement accounts (IRAs, 401(k)s) are treated differently from state to state and require separate analysis. Spousal protections — including the Community Spouse Resource Allowance — provide additional safeguards when one spouse needs care.

## 7 Your Next Steps How Black Hills Financial Planning can help

- 1 **REVIEW YOUR CURRENT ASSET PICTURE**  
List all accounts, property, and major assets with approximate values. Knowing what you have is the starting point for any plan.
- 2 **ASSESS YOUR TIMELINE HONESTLY**  
Are you healthy with years of planning ahead, or is care potentially needed soon? Your timeline determines which strategies are available.
- 3 **CONSULT A SOUTH DAKOTA ELDER LAW ATTORNEY**  
A MAPT must be drafted by a licensed attorney. Medicaid rules are complex — professional legal guidance is essential.
- 4 **WORK WITH A FINANCIAL PLANNER EXPERIENCED IN MEDICAID PLANNING**  
A knowledgeable advisor helps you select and structure fixed annuities properly, coordinate with your attorney, and ensure all strategies work together.

**Black Hills Financial Planning**

Serving individuals, families, and business owners in South Dakota with strategic financial planning, Medicaid strategy, guaranteed retirement solutions, estate planning, and long-term care guidance.



(605) 655-2133

[blackhillsfinancialplanning.com](http://blackhillsfinancialplanning.com)

529 Kansas City St.  
Suite 210 Rapid City, SD  
57701

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