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Utilizing the Spend Down Option to Maintain SSI and/or Medicaid Eligibility

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What is a Spend Down?

Under Social Security regulations, individuals who receive benefits must have less than $2,000 in resources (or $3,000 for a couple) in order to maintain eligibility. The receipt of a large sum of money would obviously put an individual's SSI/Medicaid at risk. The term "spend down" refers to the action of literally spending down money received by a benefits recipient so that the beneficiary stays under those maximum resource limits so as not to jeopardize their benefits. Note that although a spend down can preserve eligibility for SSI/Medicaid, it is likely that part or all of the SSI benefit received in the month in which the spend down takes place may have to be re-paid.

When Might a Spend Down be Appropriate?

When an SSI and/or Medicaid beneficiary receives a lump sum, such as funds from a settlement or inheritance, he or she will become disqualified from receiving benefits unless they either establish a special needs trust to receive the funds, or do a spend down of the funds. A spend down might be the better choice in several instances. One example is if the amount of the settlement or inheritance is relatively small. In that case, it might make more sense to spend the money down rather than incur the set-up and ongoing administration costs associated with a special needs trust. Another time that a spend down could be the best option is in the situation where the beneficiary has significant current need for high-ticket items, such as a home, a modified vehicle or to pay off debt.

How to Advise on a Spend Down

It is wise to have a spending plan in place prior to receipt of the funds, as the money must be spent in the calendar month in which it is received. Note that it is not a period of a month (i.e., 30 days) that is allowed, but rather, funds must be spent before the beginning of the next calendar month. Therefore, if at all possible, it is also wise to try to time the receipt of the funds to fall as early in the month as possible so as to maximize the time in which to complete the spend down.

It is important that the funds be spent only on exempt resources, and that the items purchased are solely for the benefit of the beneficiary. Purchasing exempt assets will ensure that the items will not be counted toward the asset limitation in determining eligibility. The following is a list of exempt expenditures that a beneficiary could make and still qualify for SSI:

- Purchase a home; pay off mortgage on home; pay rent for that calendar month only
- Modify a home to accommodate an individual’s disabilities
- Purchase interest in child's home (provided parent intends to live there)
- Purchase home furnishings or appliances
- Home repair, remodeling, or deferred maintenance expenses (including landscaping)
- Medical expenses/bills not covered by Medicaid (e.g., annual check-ups)

- Dental expenses, eye glasses, physical therapy, support services not covered by any benefit program
- Education expenses (including computer, software, books, etc.)
- Entertainment/recreation expenses (books, magazines, movie/concert tickets, sporting events, audio/video equipment)
- Vacation travel (airline tickets, train/bus passes, temporary food & shelter, etc.)
- Pay an attorney to do estate planning and/or Medicaid planning
- Pay off unsecured debts (existing credit card debt, loans with supporting paperwork)
- Pre-pay burial arrangements
- Personal hygiene (haircuts, manicures)
- Purchase an automobile, pay for registration and insurance
- Purchase clothing
- Up to $2,000 for a single person, or up to $3,000 for a married couple, in cash reserve, e.g., in savings, checking, etc.

Reporting the Spend Down

The spend down must be reported to Social Security (and any other applicable public resource agencies) by the 10th day of the month following the month in which the spend down was done. The following guidelines should be followed in order to be properly prepared for completing the reporting:

- The beneficiary should keep sufficient funds in their bank account, as they will most likely be required to re-pay their SSI benefit for the month in which they received the lump sum
- The beneficiary should keep receipts for all items purchased, as those will be needed to complete the reporting
- If a home was purchased, the beneficiary must have their name on the title; if remodeling was done, receipts will be needed
- If a vehicle was purchased, the beneficiary's name must be on the ownership certificate and they must be the loss payee for the auto insurance
- Copies of current bank statements from all accounts will be needed, as well as a printout on the last day of the month showing the balance as of that day
- Uncleared checks or debit card purchases should be listed at the end of the month

As discussed above, a spend down can be the best option in certain circumstances. However, keep in mind that the downside to a spend down is that the money will not be available in the future to pay for special needs. Careful thought and planning must go into the preparation for a spend down so as not to waste valuable funds. Although funds will no longer be available, if the spend down is done properly, the beneficiary's quality of life can be improved for years to come through use of the items purchased.