DETERMINING INCOME FROM ASSETS

(02/19)

- Checking accounts use the **average** balance for the last 6 months.
- Savings and CD's, use the **current** balance.
- Deduct penalties from the asset amount to determine the "Cash Value" of the asset for imputing purposes.
- Do **not** deduct penalties from the asset amount when calculating the "Actual Asset Income".
- Funeral or Burial Accounts are included as assets if the tenant has the ability to withdraw the principal.

SAVINGS BONDS

Obtain, and retain in the tenant file, a complete list of the tenants' individual savings bonds for verification to accurately determine income from assets. The **Value** of the bonds = the asset amount **X** the **Interest Rate** for the individual bonds = the actual income from assets. These amounts vary and must be recalculated every year.

Savings Bond Calculator: http://www.treasurydirect.gov/BC/SBCPrice

Download Savings Bond Wizard: http://www.treasurydirect.gov/indiv/tools/tools_savingsbondwizard.htm

INSURANCE POLICIES

Count as Income: The full amount of **periodic** payments received from insurance policies.

Exception: Long-term care (or nursing home insurance) insurance payments in excess of $180/day must be counted toward the gross annual income.

Count as an Asset:

- Net Family Assets include the cash value of life insurance policies available to the individual before death (the surrender value of a **Whole Life or Universal Life policy**).
- Net family assets do **not** include **term life** insurance policies (there is no cash value).

TRUST ACCOUNTS

Trusts in Which the Tenant or Family Member Is the Grantor:

Revocable Trusts: (The grantor of the trust has the right to withdraw the funds and could amend the terms or revoke the trust account.) If any member of the tenant family has the right to withdraw the funds in the account, the trust is treated like any other asset. The cash value of the trust (the amount the family member would receive if he or she withdrew all that could be withdrawn) is added to total net assets. The actual income received is included in actual income from assets.

Nonrevocable (Irrevocable) Trusts. (The grantor of the trust cannot withdraw the funds and gives up any right to amend the terms or revoke the trust account.)

- If no family member has access to either the principal or income of the trust, the trust is not included.
- If only the interest (none of the principal) from the trust is available to a family member, the interest is counted in annual income, but the balance in the trust account is not included as an asset.

- If a tenant sets up a nonrevocable (irrevocable) trust for the benefit of another person while residing in assisted housing, the trust is considered an asset disposed of for less than fair market value. Please refer to that section for further information.

Trusts in Which the Tenant or Family Member Is the Beneficiary:

Payments from a trust:

- If a beneficiary receives the full value of a trust at one time, the funds would be considered a lump sum receipt and would be treated as an asset.
- If a beneficiary receives interest and/or principal from the trust on a periodic basis, the payments would be treated as annual income.

Example – Payment of Principal Amounts from a Trust *Last year Jared Leland received $18,000 from a nonrevocable trust established by his parents. The attorney managing the trust reported that $3,500 of the funds distributed was interest income and $14,500 was from principal. Jared receives a payment of $1,500 each month (an amount that includes both principal and interest from the trust). The owner will count the entire $18,000 as annual income.*

A MORTGAGE OR DEED OF TRUST HELD BY AN APPLICANT (CONTRACT FOR DEED)

- Payments on this type of asset are often received as one combined payment that includes principal and interest. This combined figure needs to be separated into the principal and interest portions of the payment. (This can be done by referring to an amortization schedule that relates to the specific term and interest rate of the mortgage.)
- The asset value to determine “imputed” interest is the unpaid **principal** balance as of the **effective date of the certification.** Since this amount will continually be reduced by the principal portion paid during the previous year, the owner will have to determine this amount at each annual recertification.
- The actual income for the asset, based on the amortization schedule, is the interest portion due for the 12-month period **following** the certification.

DETERMINING INCOME FROM REAL ESTATE

Market Value (True & Full Value on Tax Statement) **less** Amount Owed (Loan Balance), **less** Selling Costs (10%) = Cash Value X 2% = **Imputed Interest**

Rental Income and/or CRP Payments less Expenses (taxes, water, etc. paid by the owner) = **Actual Income from the Asset**

RETIREMENT ACCOUNTS

Note: Retirement plans of all types (with the exception of Roth IRAs while the owner is alive) require minimum distributions (RMD’s) annually. **Once the RMD’s begin, the distribution is considered a periodic payment.** However, if the tenant withdraws additional funds (for example for a vacation), those funds are not included as income. Please refer to “Brief Explanation of Financial Terms” on the last page of this document for additional information.

Count as Income: Include in annual income any retirement benefits received through **periodic payments**. Do not count the remaining balance as an asset.

Count as an Asset:

- Balances held in retirement accounts are counted as assets if the money is accessible to the family member. For individuals still employed, accessible amounts are counted even if withdrawal would result in a penalty. However, amounts that would be accessible only if the person retired are not counted. (Do not count withdrawals as income.)
- IRA, Keogh, and similar retirement savings accounts are counted as assets, even though withdrawal would result in a penalty.
- Include contributions to company retirement/pension funds:
  - While an individual is employed, count only amounts the family can withdraw without retiring or terminating employment.
  - After retiring or terminating employment, count as an asset any amount the employee elects to receive as a lump sum.

ANNUNITY CALCULATIONS

Count as Income: All benefits received as **periodic payments**. Do **not** count the remaining balance as an asset. *(Generally, when the holder has begun receiving annuity payments, the holder can no longer convert it to a lump sum of cash.)* An annuity it is subject to RMD's only if it is in a traditional IRA.

Count as an Asset:

When an applicant or tenant has the option of withdrawing the balance in an annuity, the annuity will be treated like any other asset. **The cash value of an annuity must be calculated regardless of the total net assets**. Deduct any penalties, surrender fees and tax penalties to determine the "Cash Value" of the asset for imputing purposes. Do not deduct penalties from the asset amount when calculating "Actual Anticipated Asset Income". A lump sum receipt is counted as an asset.

ASSETS DISPOSED OF FOR LESS THAN FAIR MARKET VALUE

Applicants and tenants must declare whether an asset has been disposed of for less than fair market value at **each** certification and recertification. Owners must count assets disposed of for less than fair market value during the two years preceding certification or recertification. The amount counted as an asset is the **difference** between the cash value and the amount actually received.

Any asset that is disposed of for less than its full value is counted, including cash gifts as well as property. To determine the amount that has been given away, owners must compare the cash value of the asset to any amount received in compensation.

However, the rule applies only when the **fair market value** of all assets given away during the past two years **exceeds the gross amount received** by more than **$1,000.**

If a tenant sets up a nonrevocable (irrevocable) trust for the benefit of another person **while residing in assisted housing**, the trust is considered an asset disposed of for less than fair market value.

- If the trust has been set up so **interest is reinvested** in the trust and is not paid back to the creator, the trust is calculated as any other asset disposed of for less than fair market value for two years and not taken into consideration thereafter.
- If the tenant receives the interest or other income from the trust, it is included as annual income and the trust is counted as an asset disposed of for less than market value for two years. Following the two-year period, the owner will count only the income distributed from the trust to the tenant.

WITHDRAWAL OF CASH OR ASSETS FROM AN INVESTMENT

- The withdrawal of cash or assets from an investment received as periodic payments should be counted as income. If benefits are received through periodic payments, do not count any remaining amounts in the account as an asset.
- Lump sum receipts from pension and retirement funds are counted as assets.

BRIEF EXPLANATION OF FINANCIAL TERMS

Revocable Trusts: The grantor of the trust has the right to withdraw the funds and could amend the terms or revoke the trust account.

Nonrevocable (Irrevocable) Trusts: The grantor of the trust cannot withdraw the funds and gives up any right to amend the terms or revoke the trust account.

401(k), 403(b) & TSA's: Employer sponsored retirement savings plans funded with money deducted from your pretax salary. **Your employer may also match some or all of your contribution**, based on the terms of the plan you participate in. **Employer contributions** are called **non-elective deferrals**, **employee contributions** are called **elective deferrals.**

IRA - Individual retirement account (Traditional and Roth): Individuals can put up to $2,000 per year in an IRA.

- You must be at least 59 1/2, or qualify for an exception, to withdraw without owing a 10% penalty, in addition to taxes due on the amount you take out.
- Withdrawals from **traditional** IRAs **must** begin by age **70 ½ (RMD's**), and all earnings (plus any deductible contributions) are taxed at your current tax rate as they are withdrawn.
- Withdrawals from **Roth** IRAs are tax-free after you reach age 59 1/2, provided the account has been open at least five years. In addition, **Roth IRAs** have **no required** withdrawals.

Annuity: Annuity refers to different kinds of payments, investments, and financial products. There are many types of annuities; listed below are a few examples.

1. Most commonly, an annuity describes the amount you receive from your pension each year, usually in monthly installments.
2. Annuity also refers to the annual income you receive from any source, as well as the source itself.
3. Some tax-deferred retirement savings plans are called annuities.
4. An annuity can be part of a qualified plan, such as a 401(k) or tax-sheltered annuity and you typically begin to receive income from the annuity when you retire.
5. You can buy a **nonqualified deferred annuity** while you're working and get income from it when you retire. With **nonqualified annuities**, there are **no** required withdrawals.
6. You can buy an immediate annuity when you retire and receive monthly payments as long as you live.
7. Most annuities charge surrender or withdrawal fees. In addition, early withdrawal usually results in tax penalties.

Keogh Plan: Keoghs are qualified retirement plans for self-employed people, small-business owners, and others in similar work situations.

- There may be penalties for withdrawals before you reach age 59 ½.
- You may be required to begin withdrawals **(RMD's)** by age **70 1/2.**

Qualified Retirement Plan: Qualified retirement plans are employer-sponsored, tax-deferred plans to which you contribute or to which you and your employer both contribute.

- If you withdraw from any of these plans before you reach age 59 1/2, you'll owe a penalty as well as the income tax that's due, unless you qualify for one of the exceptions spelled out in the federal income tax code.
- You are required to begin withdrawals by age 70 ½ (RMD).

Nonqualified Plan: Nonqualified contributions are made with post-tax dollars, although any earnings in the plan accumulate on a tax-deferred basis.

- You must postpone withdrawals to age 59 1/2 to avoid penalty.
- The federal government does not require you to begin withdrawals at age 70 1/2.

Types of Retirement Plans that Require Minimum Distributions (RMD's):

- The RMD rules apply to all employer sponsored retirement plans, including profit-sharing plans, 401(k) plans, 403(b) plans, and 457(b) plans.
- The RMD rules also apply to traditional IRAs and IRA-based plans such as SEPs, SARSEPs, and SIMPLE IRAs.
- The RMD rules also apply to Roth 401(k) accounts.
- The RMD rules do not apply to Roth IRAs while the owner is alive.

Deadline for Receiving a RMD from an IRA: An account owner must take the first RMD for the year in which he or she turns 70 ½. However, the first RMD payment can be delayed until April 1st of the year following the year in which he or she turns 70 ½. For all subsequent years, including the year in which the first RMD was paid by April 1st, the account owner must take the RMD by December 31st of the year.

Deadline for Receiving a RMD from a Pension Plan: The account owner must withdraw Required Minimum Distributions (RMD's) annually starting with the year that he or she reaches **70 ½** years of age or the year in which he or she retires if they retire after **70 ½.**

Life Estate: A life estate is a term used to describe the ownership of land for the duration of a person's life. The owner of a life estate is called a "life tenant". In such an arrangement **the life tenant has the right to possess the land for his natural life.**