



DEPARTMENT OF HEALTH & HUMAN SERVICES

Health Care Financing
Administration

Refer to: MO4

Region V
105 West Adams Street
15th Floor
Chicago, Illinois 60603-6201

October 1991

Chicago Regional State Letter: 70-91

Subject: Use of Old Medical Bills in the Spenddown Process - Informational

The question has been raised regarding whether current payments on a loan (including interest on the loan) are deductible in the medically-needy spenddown if the loan is (or was) taken out to pay off an "old" medical bill. Briefly, current payments on the loan principal are deductible, but the interest is not. (This issue does not arise with respect to new bills since new bills, themselves, are deductible for the period in which they are incurred whether or not they have been paid off with loan proceeds.)

Current payments on the principals of loans used to pay off old medical bills (i.e., bills incurred prior to the current budget period) are incurred health care expenses if the conditions discussed below are met. The objective is to allow the recipient to use his or her liability to the lender in place of his or her liability to the provider. Further, since the State may deduct only the amount that would have been deducted had the provider's bill been used, the deduction of interest payable on the loan is precluded.

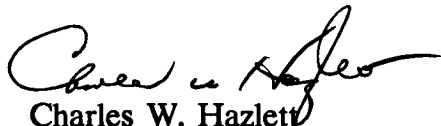
Under this policy, the loan payments can be applied only against the current spenddown liability and only if both of the following additional conditions are met:

- o The proceeds from the loan were actually used to pay the provider's bill (i.e., the loan payment are not deductible until after the proceeds have been paid to the provider).
- o Neither the provider's charges nor the loan payments were previously deducted in the spenddown process. (Loan proceeds that are not used until a later period may only be applied against any spenddown liability that may exist in such later period.

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This policy gives the recipient the relief intended by the spenddown (i.e., application of the remaining liability for old medical expenses against the person's spenddown liability). The policy does not change the treatment of old bills that remain unpaid, i.e., they are still deductible in the spenddown to the extent that a current liability continues to exist and the bills have not been previously deducted.

If member of your staff have questions regarding this policy, please contact Yolanda Burge or Jean Hall at (312) 886-4936 and (312) 353-3746, respectively.



Charles W. Hazlett
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Division of Medicaid

Originating Component: Medicaid Operations Branch
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