Long-Term Care Insurance – Is it an Expense or an Asset? PART II

Did you know….

Nearly $725 billion per year is spent in the United States on chronic illness care. Astonishingly over $450 billion of this care is rendered by unpaid family members. Many of these family caregivers eventually find themselves in poor physical and financial health from the stress of caring for a loved one!

Only $7 billion or less than 10% is being paid by privately owned long-term care policies for families that had the foresight to buy the necessary protection for them and their families.

In our previous issue, we reviewed some potential options for Pre-Retirees. This issue will focus on Retirees.

SCENARIO # 2 - If your client is older than 65 and should have long-term care insurance…

The Situation - We are working with a family that has old whole life policies that have accumulated a great deal of cash value. They have planned their estates and have accumulated sufficient funds for retirement. They also have approximately $1,200,000 of permanent life insurance on the life of the husband. These policies contain approximately $400,000 of cash value. Annual premium payments are being made of $18,000.

What Was Implemented – Using the current cash value of $400,000 and continuing an annual premium of $18,000, the following strategy was enacted:

> **Husband** – Purchased a traditional universal life insurance policy having a death benefit of $1,100,000 with a 2% percent long-term care rider. The premium for this policy was $10,200 after the initial deposit (a portion of the cash value from the above noted policies) to the new policy from the currently in-force polices.
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> Should he need long-term care, he can now access the death benefit at $22,000 per month to pay for his long-term needs. Upon his passing, his named beneficiary will receive $1,100,000 less the amount paid for long-term care.
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> **Wife** – Purchased a traditional (not indexed as discussed above) universal life insurance policy having a death benefit of $1,200,000, with a 2% percent long-term care rider. The premium for her policy was $7,800 after the initial deposit (a portion of the cash value from the above noted policies) to the new policy from the currently in-force polices.
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> Should she need long-term care, she can now access the death benefit at $24,000 per month to pay for her long-term needs. Upon her passing, her named beneficiary will receive $1,100,000 less the amount paid for long-term care.

Issues Uncovered – As a result of our planning, the following issues were addressed:

1. Can the new insurance with a long-term care rider be owned within an insurance trust removing the benefit from estate taxation?

2. How did we use the cash value of a group of policies on the life of the husband to fund life insurance on the life of the wife, without incurring income taxation?

3. Can we avoid premium payments on the policy if the insured becomes impaired?

Questions to consider when dealing with Long Term Care and Waiver of Premium Riders

1. Is the long-term care benefit; indemnity or reimbursement?

2. Is the long-term care rider a true long-term care rider or a chronic illness rider? What's the difference?

3. If the policy projects a rising death benefit, does the pool of long-term care funding increase and if so, to what level?

4. If the insured becomes eligible for long-term care/chronic illness benefits, are premiums required or are they suspended during the illness?

Contact us to discuss these questions so that you are comfortable on addressing with you clients.

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