INTEGRATED INSIGHTS . . .

Should High Net Worth Clients Insure for Long-Term Care?

High net worth individuals have the means to do things others can't. Current thinking says they don't need long-term care insurance because they can pay for any LTC expense. Just because they don't need the insurance, doesn't mean it has no value. Often overlooked is the cost of accessing money. If money is pulled from qualified funds, taxes need to be accounted for. If money is pulled from market investments there could be added cost in a down market causing a realized loss. For high net worth clients there is another hidden cost of paying estate taxes on the money set aside for long-term care expenses.

Utilizing life insurance with a long-term care rider assures the amount that will be paid out whether care is needed or not. If a high net worth client owns the policy in a spousal lifetime access trust (SLAT), they will be able to avoid estate taxes on the death benefit while maintaining access to the long-term care benefits if/when needed. A policy offering indemnity[1] benefits is an attractive feature to consider because it allows the client to control their care regimen and utilize family or unskilled care givers as desired.

The hidden cost of self-insuring

If your client plans to set aside money in his or her taxable estate for potential LTC expenses, there are a couple of possible outcomes:

- If most of the funds are used for LTC expenses, the plan worked, though the asset is depleted for legacy purposes.
- If few or no LTC expenses arise, there could be the cost of substantial estate taxes on the funds remaining at death — up to 40% at current estate tax rates.

A More Efficient Option[2]

Mrs. Gotrocks is a 58-year-old female who assumes that she and her husband can self-insure LTC expenses because they have a net worth of $50 million. However, assuming $1 million is set aside in the estate to pay for her LTC expenses, any unused portion of those funds could be taxed up to 40% at current estate tax rates. In this case, the consequence of self-insuring could be a loss of $400,000.

Because the goal is to grow the Gotrocks' legacy, not deplete it, we look at an alternative strategy –reposition the $400,000 that would potentially be lost to estate taxes into a life insurance policy with LTC rider.

- A $400,000 single premium would supply a leverage of $1.4 million in long-term care/death benefit.
- If LTC is needed, $1.4 million would be available to pay for LTC expenses instead of fully depleting their own $1.4 million of assets.

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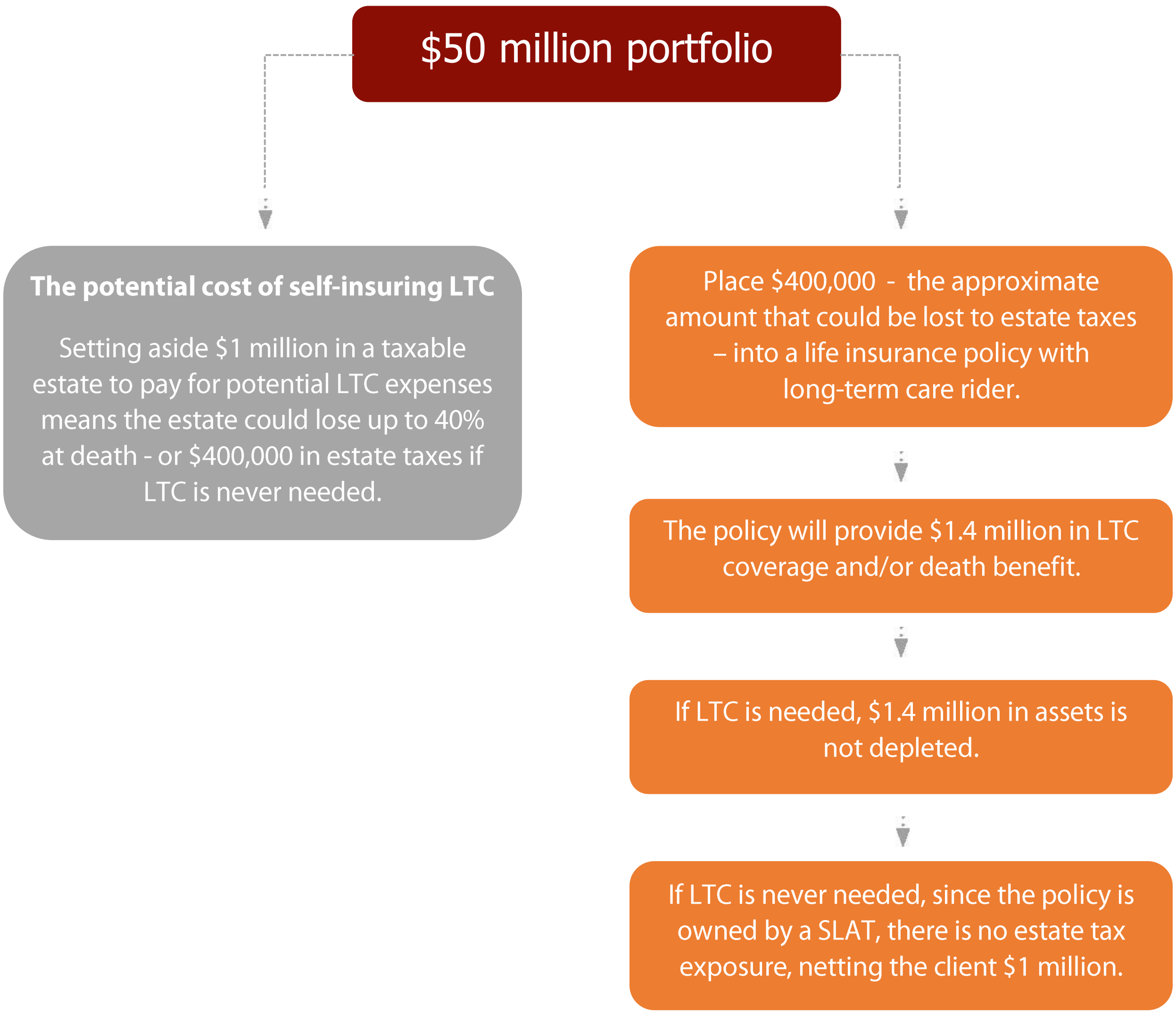
- If LTC is not needed, instead of exposing $1 million to potential estate taxation of $400,000, a death benefit of $1.4 million would be paid to her beneficiary.

After reviewing the options, Mrs. Gotrocks deemed that using life insurance with a LTC rider, owned by a Spousal Lifetime Access Trust, was a much wiser approach to planning for potential LTC expenses than self-insuring. The new plan will help preserve their assets instead of unnecessarily depleting them.



1. Indemnity benefits are paid tax-free up to the IRS HIPAA per diem limit, $420/day in 2023.
2. This example assumes a 58-year old female, Preferred Nonsmoker, $1,400,000 death benefit, guaranteed to age 100, with a maximum long-term care benefit of $28,000/month, capped at the IRS HIPAA per diem limit at time of claim.

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