

Planning with Long-Term Care Insurance

Protection

Flexibility

Peace of Mind

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Long-Term Care insurance (LTC) is designed to provide an income stream to offset the costs of increased medical expenses resulting from an extended illness that requires professional care. One of the most significant concerns we hear is the potential impact of Alzheimer's and the erosion of assets if an individual requires care and lives for a long time.

In today's environment, it is rare for us to have a planning discussion with a client or advisor where Long-Term Care concerns do not come up. LTC is a significant concern for many clients and there are limited, but expanding, alternatives to alleviate the potential financial and personal burden of an extended illness.

A Brief History

LTC insurance began as "Nursing Home" insurance and has been around for decades. In recent years, the industry has experienced significant changes that have a direct impact on the options available to purchasers.

- Qualifying illnesses now include care outside of facilities and care is often provided in the home
- Expanded product features provide more flexibility
- Many products include a death benefit component to address the "use it or lose it" aspect of traditional LTC
- Many carriers have exited the stand-alone market limiting alternatives

In response to these factors, insurance carriers have developed new product alternatives to meet the increasing LTC insurance need.

Product Alternatives

There are currently three product alternatives available for clients to meet their LTC planning needs:

- Stand-Alone LTC
 - Provides only a LTC benefit with no death benefit
 - Provides the most robust LTC benefit features
 - Premiums are not guaranteed
 - Use it or lose it benefit structure
- LTC products with a Death Benefit
 - More expensive than Stand-Alone products
 - LTC benefit features not as robust as Stand-Alone products
 - Death benefit addresses use it or lose it concerns
 - Death benefit is usually a return of premium or other basic amount
 - Pricing is usually guaranteed
- Life Insurance product with LTC Rider
 - Primary objective is to provide life insurance death benefits
 - Limited LTC features
 - Riders allow for the death benefit to be accelerated with no taxation
 - Pricing may be guaranteed depending on the product used

Indemnity or Reimbursement?

There are two LTC insurance payment options – Indemnity and Reimbursement.



All Stand-Alone LTC products pay benefits on a reimbursement basis. Some hybrid products offer indemnity payments which maximizes the flexibility of the coverage.

Policy Ownership

One question that often comes up during client discussions is the ownership structure of the LTC insurance. In most cases, Stand-Alone LTC products are owned by the insured. However, with the introduction of a life insurance component, it may or may not make sense for the insured to own the policy.

In many cases, it may be possible for a Trust, a Company or a business partner to own the coverage. Typically, the benefit structure must be indemnity-based for the policy to be owned by someone other than the insured.

Other Uses of LTC Insurance

There are many uses of LTC insurance outside of the traditional individually-owned policy. Anytime there is a concern about the financial impact of the death of an individual, there is usually a similar concern (if not a greater concern) about the impact of an extended illness of the individual. The ability to own indemnity-based LTC insurance in different entities provides tremendous flexibility for additional planning strategies outside of the traditional individually-owned policy.

Business Succession Planning

LTC insurance can be used to provide a stream of tax-free income to the business or a business partner for the purposes of purchasing the ownership interests of the incapacitated partner. This strategy can be used in a Cross-Purchase or a Buy-Sell arrangement.

Special Needs Trust

In the event of a Special Needs Trust, what will happen to the special needs individual if their care-giver is no longer able to provide the needed support? This concern is typically addressed if death occurs to the care-giver but not in the event of an extended illness. LTC insurance may be structured to provide an income stream to the Special Needs Trust for the support of the individual.

Charitable Giving

LTC insurance may be used to provide a tax-free income stream for the benefit of a charitable organization. The benefit of utilizing LTC insurance for charitable giving is an acceleration of the contribution instead of waiting until the death of the insured to make the gift.

Executive Benefit Planning

In situations where life insurance is used to provide a benefit to a key employee, a LTC rider can often be added to help the employee meet their planning concerns.

Summary

In today's environment, LTC planning is more important than ever. With medical advances extending life expectancies and the cost of health care continuing to rise, the potential costs of medical care could significantly erode a substantial estate. The LTC insurance marketplace has gone through a maturing process and there are product alternatives that can be structured to meet multiple objectives including estate preservation, business succession planning and charitable planning.

The LTC insurance marketplace is complex and there are many variables to consider to ensure the coverage is designed to meet your goals and objectives. Make sure you work with a reputable advisor to assist in identifying the products and carriers that are most suitable for your needs.