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Long-term Care Insurance Uses in Estate Planning

By Steve Fox

Steve Fox explains the benefits of long-term care insurance and the value this insurance brings to preservation of the estate plan.

Patrick and Joanne Bannister employed a professional estate planner. Through the years, they and their advisors mapped out an investment and asset growth strategy. The plan worked. First Pat retired at 65 (five years ago) and then Joanne, when she reached 65. They told their estate planner about wanting to leave at least half of their $3 million estate to their two children.

"No problem," said the estate planner. "You have the money."

"Of course, if our son's small business fails we would want to help him and the grandkids until he's back on his feet," they told their planner.

No one spoke of long-term care (LTC). Then Pat suffered a stroke that put him first in the hospital and later in a nursing facility for a year. As Pat regained his ability to function on his own, Joanne had a car accident. Her injuries required double knee surgery. Back to the nursing home for six months of recuperation and assistance with daily life. Then their son's business failed ...

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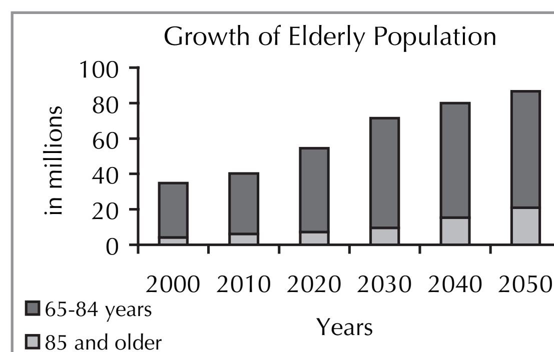
Planning for Long-term Care

We Americans are living longer and generally, that is a good thing. Someone who has reached age 65 today will likely live to see 82. The trend is increasing from there. Note how the 85 and older group in Exhibit 1 increases.

Few of us are willing to accept a lesser quality of life as we age. There is nothing wrong with that. Yet,

Exhibit 1. Growth of Elderly Population



Source: U.S. Census Bureau, 2004, *Interim Projections by age, sex, race and Hispanic origin, 2004.*

planning for the funds to pay for the care needed to maintain that quality of life is not something many of us do. A majority of Americans who reach age 65 will need LTC. Underscoring this, the Employee Benefits Research Institute reports a $400 billion shortfall between the years 2020 and 2030 in elderly Americans' ability to cover basic living expenses and those associated with care required in a nursing home or home health care.

Do not think that LTC is the exclusive province of the elderly and infirm. About 40 percent of the 12 million Americans receiving LTC each year are under 65 says the Health Insurance Association of America in their *2003 Survey*. As the Bannisters illustrate above, this often results from need created by an accident or illness rather than simple aging. The message is that America is in denial about its need for long-term care insurance (LTCI).

So who should plan for the potential need for LTC? Professional estate planners are one choice. As a trusted advisor, it is easy for an estate planner to blend into the overall estate plan the premium payments for services needed and the resulting benefit

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disbursements when accident, chronic illness, disability or aging reduces a client's ability to care for themselves. Creative use of LTCI often helps achieve other estate planning goals as well.

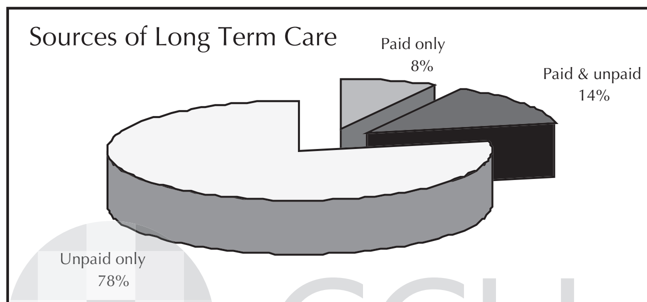
Basics of Putting LTC into the Estate Plan

Planning for the Type of Care

There are three types of care for which you want to plan:

- The care provided by family and friends
- Professional home and community-based services such as adult day care
- Institutional care such as skilled nursing and residential facilities.

Exhibit 2. Sources of Long-term Care



Source: Health Policy Institute, Georgetown University analysis of data from the 1994 and 1995 National Health Interview Surveys on Disability, Phase II.

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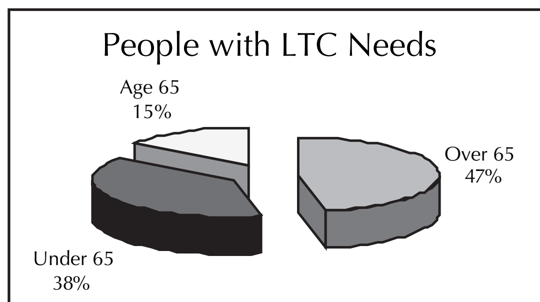
Though somewhat dated, Exhibit 2 shows that most LTC is unpaid, provided by friends and family as well as certain charitable organizations. That has not changed. Certainly availability of unpaid care, or the lack thereof, is a big part of the equation that astute planners consider when including LTCI in the estate plan.

Exhibit 3. People with LTC Needs



Source: Report by Rogers and Komisar, 2003, Georgetown University, Health Policy Institute, and *The National Nursing*

Knowing Who Will Need LTC

Estimating who will need long term care is not easy. Not surprising, over 60 percent of those 65 and over will require some type of LTC. Note that of the number of people with a LTC need, 38 percent are under age 65.

How Much Is Enough?

Estate planners use these probabilities in gauging the amount of resources required for anticipated care. As clients age, the probability that they'll need LTC rises. So should the resources available. Our goal is to provide sufficient funds for needed care considering the client's age, health and financial capabilities. How much is sufficient? During 2003, Americans spent over $110 billion on nursing home care and another $40 billion on home health care, a significant part of which, 46 percent and 25 percent respectively, was paid by Medicaid. Exhibit 4 shows the sources of health care spending.

The conclusion is that Americans are vastly underinsured when it comes to LTC. Worse still, medical costs are likely to continue to rise. A private room at a U.S. nursing home for one year currently runs on average about $70,000. It's only slightly less for a semi-private room, $62,000. However, depending on where you live, the actual costs can be quite different. Nursing home care in New York City averages $133,663 a year for a private room. Yet equivalent care in Louisiana averages just $44,614. The media cites experts reporting that by 2030, those annual costs could approach $190,000 and $167,000, respectively. Of course, this does not include the medical professionals' expenses to care for your client or the pharmaceutical bill. Exhibit 5 shows how fast Medicaid payments have grown between 1991 and 2004.

Statistically, most people use LTC for an average of 2.5 years.[1] Further, only eight percent of people over 70 require coverage for more than five years. Taking that as a benchmark, the following model depicted in Table 1 determines the required coverage.

Table 1 assumes the client is now 62 years old; change the assumptions based on your client's situation and the margin of error you wish to build. Then, each year, consider adjusting for increased costs beyond the assumed five-percent inflation to be certain the funds are there should the need arise.

Do not forget your client's spouse; adding another person may double the required funds. However, a creative use of LTCI can reduce that substantially, as discussed later.

When determining how much coverage is enough, be sure to consider the portion of the total the insurance should pay for. It does not always need to be 100 percent. Many people have the funds to get by with just 70 percent of the total estimate covered.

The Bannisters' Nest Egg Shrinks

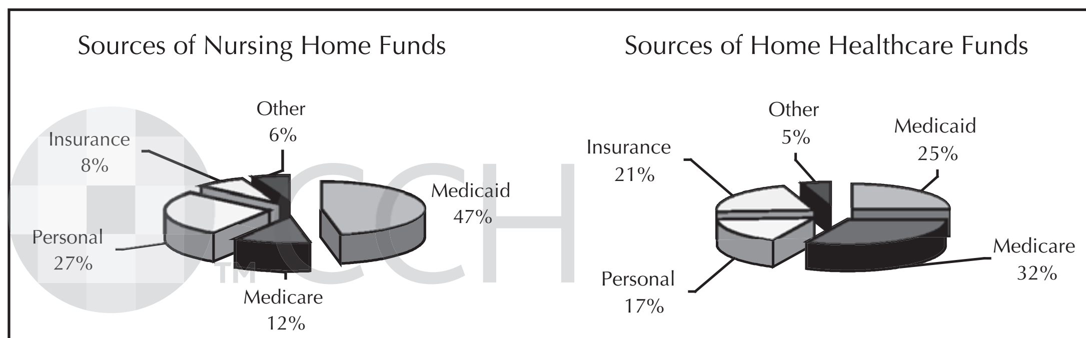
Both Pat and Joanne eventually recovered. However, the cost was about $300,000 to get Pat back from his stroke and Joanne walking again after her car accident. As for their son, mom and dad paid him an advance of $50,000 on his inheritance to bail him out of his failed business venture. The Bannisters' $3 million estate just shrank by 12 percent.

"One more catastrophe and we won't be able to leave that $1.5 million to the kids," they continued to worry. Their estate planner had not considered such a dramatic drop in principal so quickly. She assumed the balance would *rise* due to Pat and Joanne's conservative investment plan. Pat Bannister had reason to worry. The $1.5 million the Bannisters planned on leaving their two kids was now down to $1,325,000, or $662,500 to each child (less the $50,000 advance already paid to the son, of course).

As often happens, the kids also felt the pinch. They were both counting on that money to pay down their home mortgages that were too high to begin with. Family conflict begins. The kids saw the money the parents used to pay for their care as spending down what should have been theirs one day soon. Had the Bannisters' estate planner provided for LTC, they would have saved the $300,000 already spent from principal. The estate would have been preserved to pass down to the kids as originally planned. Further, family harmony would not be an issue. However, now their estate planner faces a cash and income shortfall that must somehow be replaced. Additionally, there is a new issue of uncertainty the estate planner failed to recognize before, the additional health care, long term or otherwise, the Bannisters may require that their estate plan fund along with everything else.

The fall-back alternative is selling assets to raise funds. Clients with illiquid assets such as real estate or securities are at the mercy of the market for an ill-timed sale. It is a snowballing problem that only gets worse as Pat and Joanne age. LTCI offers a better way to protect against this occurrence.

Exhibit 4.



Source: CMS National Health Accounts.

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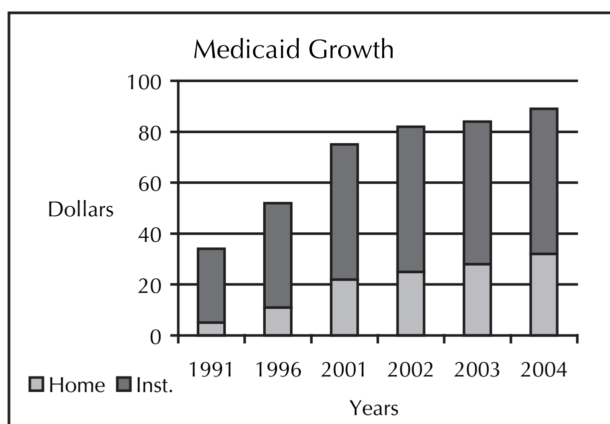
Exhibit 5. Medicaid Growth



Source: Kaiser Commission on Medicaid and the Uninsured.

My Estate Plans Rely on Medicare and Medicaid

It is not a good plan to rely on Medicare and Medicaid to cover the costs of LTC. While it is

true that Medicare provides some LTC payment, the amounts are very small for only a short period and are paid only under certain limited circumstances. The patient is responsible for covering the remainder. Further, Medicare pays only for the first 100 days of a hospital or nursing facility stay. Only when your client has bled their savings down to a maximum of $2,000 will Medicaid step in to provide payment.

Asset Management Strategies

Neither Medicaid, Medicare nor any state plan was intended to cover the needs of someone with sufficient assets to employ an estate planner. Nevertheless, some practitioners try to manage the appearance of a client's wealth by transferring assets to make it artificially look as if they meet the Medicaid qualifications. Do not try it. There is a look-back period on asset transfers of $55,000 or more that extends back for five years. Further, there is a proposal before Congress that would extend the look-back period to eight years. Not coincidentally, eight years is the average time between Alzheimer's onset and death.

Additionally, there are exemptions on certain assets. Besides the savings account maximum of $2,000, if one has home equity of $500,000 or more, they don't qualify for Medicaid. The message is clear: If your client is of at least modest means, do not count on any LTC help from federal or state programs. Neither wants their constituents to rely on government funding to provide the majority of their LTC expenses. Moreover, if your client does wind up qualifying for Medicaid assistance, her choices of where to live and be cared for will be severely limited. Independence and control and lack of it are important to all of us—the elderly in particular.

The Bannisters' Family Strife

As Pat and Joanne used assets to pay for their monumental medical bills, their two children became less supportive. They see the tremendous cash outflow as money that was promised to them being withdrawn. Pat and Joanne, on the other hand, feel angry and guilty seeing their plans come apart and their children distancing themselves. Such strife between parents who failed to plan adequately and their children is all too common. The best way to deal with this issue is to confront it before it ever becomes a problem.

Many estate planners sensitive to the issue bring the children into the process. They explain how the estate and capital preservation strategy works. They answer questions related to the various sources of funds needed for everyday life, emergencies and for LTC. They set to rest any questions related to the approximate amount of the estate on the parents' demise and how the corpus is protected from invasion by such things as a protracted illness. Once everything is out in the open and the kids see how the parents' foresight has protected the estate, the issue of spending estate assets dissolves.

Protecting Estate Assets

Even in death, there is no free lunch. With the exception of just four states (California, Connecticut, Indiana and New York), Medicaid will recover from a deceased's estate the amount of funds distributed to them while they were alive. However, California, Connecticut, Indiana and New York have all passed legislation allowing persons who purchased qualified LTCI policies (called "partnership policies") to access Medicaid once the policies are exhausted. These people do not have to meet the same means qualification tests as do others. Further, certain of their assets are exempt from estate recovery after the individual passes. The intent of this legislation is to promote the purchase of LTCI by those who would not normally do so—those who are in the mid-wealth bracket. They are not poor,

Table 1

Care components	Current annual costs	Years until 65	Future costs compounded at 5% annually	Years LTC needed	Funds required for LTC
Facility costs	$70,000				
Medical costs	$20,000				
Pharmaceuticals	$5,000				
Other costs	$5,000				
Total cost (for 1 person)	$100,000	3	$115,800	5	$579,000

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nor are they so wealthy that they can afford any amount of LTC without affecting their estate.

According to the Congressional Research Service, about 182,000 partnership policies have been issued in the four trial states since inception in 2004. To date, about $2.8 million in assets have been protected from estate recovery. Recent legislation has opened up the partnership LTC plans to all states that wish to participate.

If your clients reside in any of these four favored states, use the partnership policy to your client's advantage. Here's how:

1. **Determine how much of the client's assets are protected from estate recovery after death.** In California and Connecticut, for example, each dollar of LTC benefits paid by the insurance company protect one dollar of estate assets. Therefore, if the policy paid $500,000 in LTC benefits for the last five years of the person's life, then $500,000 of their estate is protected from mandatory reimbursement to Medicaid for any LTC it may have provided during the person's lifetime. Residents of New York do not have to meet any asset criteria to qualify for Medicaid. Residents of Indiana, on the other hand, have a dollar-for-dollar *and* a total asset protection scheme.
2. **Allocate LTC responsibility.** Determine the amount of LTC your clients are willing to pay for themselves and how much they wanted covered by LTCI.
3. **Target key assets.** These are liquid assets clients should have at key times in their lives to pay for living expenses, emergencies and the LTC calculated above.
4. **Target Medicaid eligibility thresholds.** If you choose to use the partnership policies that apply in your state, they will reduce the asset spend-down needed to reach Medicaid eligibility should the insurance policy benefits be exhausted by then.

Table 2. Assets at Time of LTCI Purchase by State

State	<$100K	$100K–$350K	>$350K
CA	21%	33%	46%
CT	19%	34%	48%
IN	13%*	21%	60%

*Assets of six percent of the total Indiana population of purchasers is unknown.
Source: Purchaser Surveys of California, Connecticut and Indiana. New York did not conduct purchase surveys.

To Which Clients Does This Apply?

That depends on the state and how it has chosen to protect assets. The New York and Indiana programs, which provide for 100-percent asset protection and a hybrid of dollar-for-dollar and complete protection, respectively, would likely appeal more to high–net-worth individuals. Table 2 shows the assets of LTCI partnership policy purchasers by state.

The conclusion is that, depending on the state you live in, an LTCI partnership policy is more advantageous the greater your client's asset base.

Table 3. Insurance Carriers Offering Qualifying Long-term Care Insurance Policies*

State	Insurance Carriers
CA	CA Bankers Life & Casualty Co., Genworth, John Hancock, New York Life Insurance Co., MetLife
CT	Bankers Life & Casualty, CUNA Mutual, Genworth, John Hancock, MedAmerica, MetLife, Monumental Life, State Farm
IN	Bankers Life & Casualty, CUNA Mutual, Genworth, John Hancock, MedAmerica, Monumental Life, State Farm Mutual Automobile Insurance Co., Transamerica Occidental Life, Mutual of Omaha, MetLife
NY	American Progressive, CNA, Conseco, First Fortis, Genworth, John Hancock, Mass. Mutual, Mutual of Omaha, The Prudential, Transamerica Life, MetLife, Allianz

* Not an exhaustive list. Companies float in and out of this market.
Source: Congressional Research Service, Report To Congress, January 1, 2005, with updating by editor.

Which Insurance Companies Participate?

There are a number of carriers that provide qualifying LTC partnership policies in each state. Table 3 shows a few of them.

Tax Treatment

There is a tax benefit astute estate planners boil into the mix. If the policy is tax qualified at the federal level, then premiums are tax deductible as medical expenses to the extent that they, along with unreimbursed medical expenses, exceed 7.5 percent of adjusted gross

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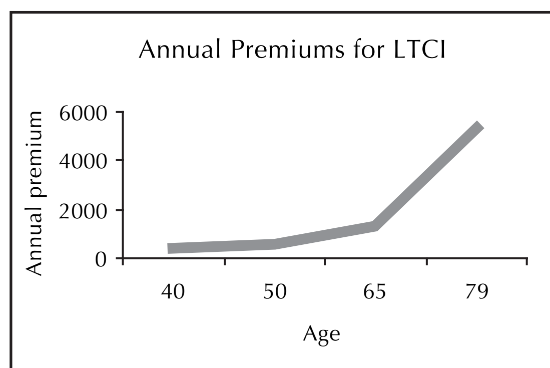
income. Further, the benefits are not considered taxable income under the Internal Revenue Code.

Smart Management of LTC Insurance Costs

Most of us know that the longer one waits to buy LTCI, the more costly it will be. The foregoing graph shows the average base premiums of the top LTCI sellers from 2002. Once a client hits age 60, the annual premiums begin to spike. They will go up dramatically if a client wants a five-percent compound inflation protector, a nonforfeiture benefit or both. The premium costs could easily increase 1.5 to 2.5 times over the base. Depending on a client's financial status, these costs may or may not be material. Use these techniques to balance the coverage required with the costs:

1. **Benefit period.** The shorter the benefit period, the lower the premiums. About 27 percent of the partnership LTC policies sold in California featured lifetime coverage. Yet, according to a Kiplinger survey, only eight percent of 70-year-old claimants will need care for more than five years. Unless a client has a family history of chronic disease, chances are they won't need care for more than five years. Families with a history of chronic disease should purchase care coverage for longer periods. Bottom line—the shorter the benefit period, the lower the premium.
2. **Shared care policy.** If both spouses need an LTCI policy, shared care may provide more coverage for less money. Shared care is really a pool of benefits that can go to both or either spouse. A single five-year shared care policy yields 10 years of care between both spouses to be shared any way that is required. For example, one spouse may need three years of care, leaving the other spouse with the remaining seven years. This type of plan may reduce costs.
3. **Elimination period.** This is the waiting period before benefits begin. The longer the elimination period, the lower the premium. They usually come in monthly increments—30, 60 and 90 days. A majority of Californians buying LTCI (72 percent) opted for a 90-day elimination period. Keep in mind, these people must have the funds to pay for the first 90 days out of their own pockets. However, over a number of years in paying premiums, the savings could be substantial—especially if regularly invested in the securities portfolio.
4. **Daily benefit.** Rather than insure for the maximum daily benefit required for LTC, many savvy individuals take a lesser amount. They bridge the gap with a self-insurance fund. Lower daily benefits mean a reduction in premiums paid.
5. **Inflation protection.** Most counselors encourage adding inflation protection to be sure benefits keep up with rising costs. However, be sure to understand the *type* of inflation protection you are recommending. The two kinds are compound interest and simple interest. The cut-off seems to be around age 62. If your clients are younger than 62, then recommend compound inflation protection. Know that this could well double the premiums, but for most, it is well worth it. Over age 62, simple inflation increase may be sufficient and will lower premiums.

Exhibit 6. Annual Premiums for LTCI



Source: America's Health Insurance Plans, Long-Term Care Insurance 2002: Research Findings, Washington, D.C., June 2004.

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Will Your Clients Meet the Underwriting Criteria?

It makes little sense to boil LTCI into your client's estate strategy if they can not qualify. Even though underwriting criteria for LTCI is less rigorous than for life insurance, it is now becoming stricter. The insurance carrier you select for your clients will determine if an LTCI candidate is reasonably healthy and not afflicted with a chronic or terminal disease. Minor health problems such as arthritis usually do not disqualify a candidate. However, they may put the person into a higher rate class.

Preexisting conditions may totally disqualify a candidate. However, if the individual is already insured and later develops the disease, the insurance carrier must cover the cost of their LTC as stipulated in the policy. High blood pressure is a common example. Just a few years ago, if the condition was controllable with

medication (any medication), the person still qualified for a preferred policy. However, today, if it takes two or more medications to control blood pressure, they probably will not qualify for a preferred LTC plan.

Among other things, insurance carriers look at activities of daily living (ADLs) to help assess qualification and underwrite an individual. ADLs are six simple tasks that most of us easily complete each day. If candidates require assistance with one or more of these, obtaining an LTCI policy will be almost impossible. The common ADLs follow:

- Bathing
- Dressing
- Toileting
- Eating
- Continence
- Transferring (the ability to move in and out of bed, a chair or wheelchair)

Additionally, cognitive impairments will preclude a person from obtaining LTCI.

Depending on one's age and medical history, the insurance carrier may require a face-to-face assessment. Advise your client that this usually takes about 30 minutes and that undressing in not required. The purpose of the assessment is to see how the client handles ADLs and to check for signs of cognitive impairment. For example, the carrier may do a delayed word recall test. All results are confidential and sent directly to the insurance company for evaluation.

Candidates should have available their physicians' names, addresses and the names of medications they are taking. Also, candidates should provide their medical history and dates of surgeries, tests that were done and hospital visits during the last five years. The carrier will ask for this information anyway. Better to have it at hand than delay the overall process.

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Selecting a Carrier

As a trusted advisor, clients are likely to ask their estate planners for a recommendation on their LTCI policy. Which carrier should you recommend? Most LTC products have similar qualifications and benefits. The deciding factor often is the carrier's financial stability and history in its LTC insurance business. Your clients will be involved with the carrier for decades to come. It must be solvent when the time comes to pay their customer's benefits. When evaluating an insurance company, use the same fiduciary standards of credit worthiness that investors do when choosing a corporate bond. Any insurance company you recommend should have these ratings:

- A.M. Best: A++ to A+
- Standard & Poors: AAA, AA+ and AA
- Moody's: Aaa, Aa1, Aa2, Aa3
- Fitch/D&P: AAA, AA+

For those carriers that pass the ratings test, determine that the company has a commitment to staying in the LTC market. If the carrier has no such commitment, any insurance application runs the risk of being rejected or receiving a less-than-adequate offer.

Lastly, we want only those carriers with less of a history of increasing premiums on existing policy holders. It is true. Some insurance carriers are less prone to raise rates than others. Simply ask the representative to provide the history of rate increases for their LTC products. Then compare each candidate carrier against the others. All other things being equal (the carrier's financial stability, their commitment to the LTC market and competitive pricing), choose the one with a history of fewer rate hikes.

Sheltering Cash Assets from Estate Tax

In a situation in which the client is wealthy, the opportunity may exist to have the LTCI policy owned by an irrevocable trust that is domiciled outside the estate. The trust pays the premiums. The wealthy client has sufficient money to pay for the care needed. However, the trust is still collecting the benefits of the LTCI policy. These benefits are estate tax–free because they are in the trust. This is a good way to protect the LTCI payments from being subject to the estate tax. For an expensive and protracted period of care, this could run into the millions. Further, adding a "return of premium" rider to the policy will allow all or part of the premiums paid over the years to be repaid to the trust on the client's death. This is more money going to the children free of estate tax. Of course, this rider will be an additional expense for the client.

Sheltering LTCI Premiums As Business Expenses

Through the grace of the Health Insurance Portability and Accountability Act (HIPAA) [P.L. 104-191], C corporations can deduct the premiums paid for their LTCI program as part of their employee benefits plan. This is particularly advantageous for clients who own their own C corporation that has highly compensated employees. For LTCI, there are no discrimination tests

as with other types of benefits. Neither are company premium payments or care benefits treated as taxable income to employees, including employee-owners.

For most company plans, the employee's family members can purchase the same insurance at the same rate as provided to the company as a group. Individuals buying LTCI can deduct the premiums as an itemized medical expense on Schedule A. The benefits when paid are also tax free.

Sole proprietors, partners and owners of S corporations are not out of luck either. They can deduct a percentage of the eligible premiums for themselves, their spouses and dependents based on their age and income. The percentage works on a sliding scale in 10-year increments beginning at age 40. The deductibility of eligible annual premiums begin low—$450 for ages 41 to 50—then steadily rise to a high of $2,990 for those 71 and older. The percentage deductible is generous.

Stopping Rate Creep in Its Tracks

Many carriers offer a short pay premium plan. This allows payment of large premiums for a relatively short time, then the suspension of premium payments. This strategy works best for a C corporation seeking to claim the premiums as an expense. It has the desired ancillary effect of eliminating any further rate increases once the premiums are fully paid. Of course, you must be certain the carrier will still be in business once the premiums are paid and it comes time to pay your clients their benefits.

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Who Needs LTCI?

Here are some rules of thumb for identifying those clients in your practice who may benefit from incorporating LTC into their estate planning strategy:

1. **Estate size.** LTCI works best for those of moderate wealth, resources not so vast that they can pay for any amount of care for any length of time and the sheltering techniques, while interesting, are of no material benefit. We generally use an estate value of $10 million as the cut-off point. Above that amount, LTCI may be of little benefit; below that hurdle, it will likely more than pay for itself.
2. **Form of assets held by the estate.** If the majority of the assets are liquid, then these can be used to pay for care when needed. However, if most of the assets are illiquid, such as real estate or the family business, then selling them in order to raise cash to pay for extended care could seriously jeopardize the overall estate value. In this case, LTCI is of immense benefit.
3. **Family situation.** Estates that must consider children, spouses, extended family and multiple marriages can employ LTCI to avoid depleting assets that could otherwise go to the heirs. Further, as in the Bannisters' example earlier, use of LTCI can greatly minimize stress and family strife when future heirs see large medical bills mounting over long periods of time with no end in site.
4. **Retirement plan.** For most people, their retirement plan cannot withstand a sudden cash drain of several hundreds of thousands of dollars for multiple years. This is where LTCI fills the gap between a fulfilling retirement and one where it is a struggle each month to make ends meet.
5. **Family history.** Certain genetic diseases (Huntington's disease, for example) can be predicted. For families with such a history, LTCI can make a huge difference. However, clients must get the policy before being tested.

Specific Policy Strategies

There exist several wrinkles in LTC coverage that can help fine tune your clients' strategies.

Indemnity vs. Reimbursement

Consider the differences between an *indemnity* policy and one that provides for *actual cost reimbursement*. Though moderately expensive, indemnity policies pay the full benefit amount the carrier committed to regardless of daily actual costs. For example, say an individual had a policy that promised to pay up to $200 per day in benefits, but the actual costs are only $150 per day. An indemnity policy requires the insurance carrier to pay the full $200 per day. Smart policy owners use this "excess" to pay for prescription drugs or other expenses. Others will earmark their "profit" for a time when their actual costs exceed the indemnified benefit.

Reimbursement policies, on the other hand, pay only for actual proven costs up to the maximum amount of coverage as shown on the policy. If actual costs are just $150 per day, then the benefit paid is $150 even though the policy promises to pay a maximum of $200.

Cash Payment Plan

Thought of as a *super indemnity plan*, this one eliminates daily costs in the benefits paid calculation in favor of a monthly payment. Individuals receive the full benefit payment regardless of the amount of daily

care they actually receive. For most, this is so much easier than trying to allocate specific costs to the day on which they occurred and then haggle with the carrier about over and under days.

Return of Premiums Paid

This is one feature that can make a difference to clients who do not want to pay premiums and get nothing for it. In the return of premium plans, individuals can have all premiums paid returned to the estate on the policy holder's death. Using this approach, at worst the client is essentially making an interest-free loan to the insurance company. At best, he gets full benefits paid and his money back. Of course, the premiums appropriately reflect this feature.

A spin-off of the return of premiums paid plan is to return premiums paid in *excess* of the benefits used. So if an individual paid premiums of $75,000, but was healthy and only used $50,000 in benefits over his lifetime, his estate would be repaid the difference—$25,000—on his death.

Joint vs. Individual Policies

If both spouses own their LTC policies individually, both can collect benefits if needed at the same time. Also, once benefits begin and for the duration they are paid, all premiums cease. Separate policies for spouses are considered the more expensive option by many. However, it provides complete flexibility since each policy is independent from the other spouse.

For joint policies, both spouses are jointly covered. Additionally, both spouses can collect benefits at the same time. If only one spouse needs care, the full premium for both spouses ceases.

Strategic Uses in Estate Planning

We have covered several uses of this kind of insurance in estate planning already. However, one that many estate planners overlook is linking LTC benefits with their clients' charitable giving plan. This is a variation on the trust concept illustrated earlier. However, instead of having the trust receive LTCI benefits for disbursement to the heirs, instruct the trustee to pay these particular proceeds to a charity. If the premiums come out of the client's own company, they have succeeded in making a donation that is non taxable to their estate while funding it with before tax dollars at what could be a deep discount to the actual payout.

Future Trends

One trend is certain: Premiums for LTC insurance are increasing quickly with little end in sight. A policy for a 55-year-old five years from now is likely to be at least 25 percent more expensive than for today's 55-year-old.

The trend also seems to be moving toward the federal government taking actions that encourage people to buy LTCI. The partnership program and the asset protection afforded qualifying policies is one example. The tax advantages given to premium payments and benefits received are both another example. I anticipate that LTCI will continue to receive even greater attention from the taxing authorities as elected officials realize their constituencies demand relief from the enormous costs of the health care that so often accompanies aging.

Estate planners who educate themselves on LTC coverage and understand how correctly to incorporate it into their client's estate planning strategies, provide extraordinary value added. They move themselves further out of the category of mere legal and investment technicians and into the role of trusted advisor with a handle on more of the complete picture surrounding their clients' future welfare and the ability to manage it.

Endnotes

[1] *The MetLife Market Survey of Nursing Home and Home Care Costs*, Sept. 2005.

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