

# National Underwriter

THE WEEK IN LIFE & HEALTH

## FOCUS SENIOR MARKET

# LTC Insurance Executive Benefits: More Than Meets The Eye?

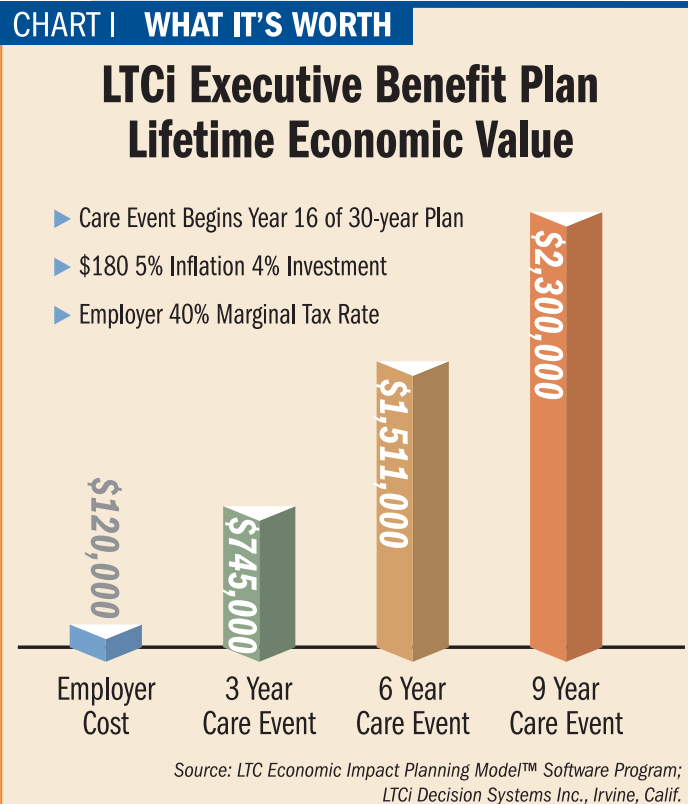
BY RALPH LEISLE

**C**ORPORATE-PAID LONG TERM CARE insurance executive benefit plans have more potential value than most people can imagine.

When looking at lifetime economic impact of long term care events, employer-paid plans create a compelling window of opportunity that could disappear.

In a properly designed LTC insurance benefit plan, premium is fully deductible to the employer while premium value and future benefits are not taxable to the executive. The executive is owner and beneficiary of the policy. Owners of pass-through entities are less favorably treated but also may have substantial tax benefits.

The scenarios depicted in Chart I illustrate an executive plan with an after-tax corporate cost of approximately \$120,000 paid over 10 years.



**The scenarios depicted above illustrate an executive plan with an after-tax corporate cost of approximately \$120,000 paid over 10 years.**

The LTC insurance plan covering an executive and spouse creates a lifetime potential multimillion-dollar tax-free wealth preservation value.

If the executive or spouse requires 3 years of care, the lifetime value is about three-quarters of a million dollars. If Alzheimer's occurs (or some other long-duration event) and runs for, say 9 years, the LTC insurance value to the estate is \$2.3 million. These figures do not include the added value of tax-free premiums paid by the corporation.

The planning tool used to create these calculations is a "holistic" planning model. It includes basics as well as variables not typically understood or appreciated when making decisions regarding LTC risk. For example, these calculations recognize time value of money, which means money not spent on care could remain in an

## Value To The Estate

SCENARIO	APPARENT VALUE	ACTUAL VALUE	
▶ <b>Employer Position</b>	\$199,000	\$119,000	Premium/After Tax
▶ <b>3 Year Care Event</b>	\$419,000	\$725,000	Claims Paid/Estate Value
▶ <b>6 Year Care Event</b>	\$918,000	\$1,490,000	Claims Paid/Estate Value
▶ <b>9 Year Care Event</b>	\$1,495,000	\$2,280,000	Claims Paid/Estate Value

Source: LTC Economic Impact Planning Model Software Program™; LTCi Decision Systems Inc., Irvine, Calif.

**Estate value includes the 4% after-tax cash flow from retained investments, which was made possible due to the presence of the LTC insurance.**

investment portfolio earning more money.

The planning assumptions used in the calculations are as follows: Executive and spouse are insurable age 55, planning to retire in 10 years. If care were needed today, the calculations assume a \$180 national average private room daily rate, increasing 5% annually over a 30-year plan period. Current cost estimates should be refined to recognize affluent clients' typical use of quality 24/7 home or premier facilities, which doubles the care cost in most markets.

Also assumed is a 4% after-tax rate of return—to project erosion of survivor income due to lost investment opportunity on funds spent on care. The after-tax cost of the premium calculations is based on an estimated federal/state 40% marginal tax rate. While insurance provides unlimited benefit duration for both individuals, estimated care is for one person beginning in year 16 of the 30-year plan period.

The apparent value versus real value of the LTC insurance executive benefit plan is summarized above.

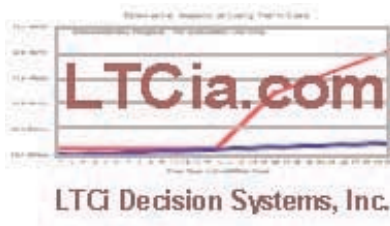
Premium paid by the employer is about \$200,000, but real after-tax cost is \$120,000 paid out over 10 years. Insurance carrier claims paid is the apparent value of insurance. Estate value includes the 4% after-tax cash flow from retained investments, which was made possible due to the presence of the LTC insurance. (See Chart II.)

In sum, when looking at lifetime economic impact of long term care events, insurance value is clearly demonstrated—no matter who pays premium. Substantial lifetime tax-free

value of LTC insurance executive plans make this benefit a must issue for every trusted advisor.

Windows of opportunity have a way of disappearing. Executives retire, become uninsurable or otherwise lose access to benefits. Government tax policies also change. This makes today's options potentially unavailable in the future. **NU**

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### Date Source:

LTC Economic Impact Planning Model™

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