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Dear MY-CPE Attendee

I hope you found our session this afternoon useful and of interest. Please let me know if I can be of assistance to yourself, or a client. I'd be delighted to share my 37 years' experience as an independent CFP, CLTC, and act as a resource for you in this ever-changing world of providing information regarding the subject of life Insurance, and the traditional LTCL, or the new linked/combo life and long-term care insurance plans that combine these strategies.

The points to keep in mind are as follows.

One must always compare the cost of one strategy against the cost of another.

Other than Medicaid, long term care costs are paid with life savings, or family involvement.

Long term care coverage should be obtained prior to age 66 as costs increase dramatically.

Either coverage can only be obtained by individuals that are relatively healthy.

Coverage provides privacy & dignity to the insured & peace of mind to their family members.

The point of this program is to avoid a family crisis by planning ahead for this contingency.

Call or email if I can answer any general questions, or to discuss the attached articles. I'm happy to provide you with a personal proposal with specific features, benefits & costs.

Best Regards



Henry Montag, CFP, CLTC.

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Voices: Protecting clients' personal and retirement assets from long-term care impairment

By Henry Montag October 4, 2021

Any type of unreimbursed long-term care expense, be it for a mental or physical impairment, can completely ruin a client's personal and retirement plans.

The arrangements that clients have made beforehand will determine the quality of their and their family's life going forward. While no one wants to think about or make arrangements for these types of unfortunate situations, the fact remains that a growing percentage of our population is affected by some sort of impairment. Approximately 10 million Americans have some form of dementia, while another 2 million new cases are reported annually. A majority of individuals over the age of 80 are diagnosed with some form of dementia. This is in addition to the countless individuals who just face old age and have serious medical conditions. The question becomes to what extent, and to what degree, will their personal and retirement funds have to be used to care for them?

The next question is where will the money come from to pay for the needed care? What assets will be protected and what assets need to be liquidated? This problem is compounded by the fact that their retirement assets will need to be drained but further exacerbated by the fact that it may have to be done at the worst time when the market is in a down cycle. Privacy issues can also be a problem for the entire family in the event of a single spouse who is not able to make proper financial decisions if advanced planning directives (i.e., updated power of attorney documents) were not properly addressed prior to an individual beginning to cognitively slip. In addition, there can be delays and unnecessary expenses if the courts have to get involved in a guardianship. Guardianships are not only costly but oftentimes bring with them a great deal

of additional stress, unwanted publicity and time delays if proper arrangements were not planned for in advance.

Someone or some entity will always have to pay for your client's care. Whether it's the family and friends providing the care, or whether the funds to pay for the professional care come from their own investment portfolio, the best alternative would be payments from a traditional tax-qualified long-term care insurance product. My 35-plus years of experience as a CFP and CLTC has shown that an ill spouse will receive a better quality of care when the funds come from an insurance company, rather than from their own funds previously allocated for their retirement. Many individuals erroneously feel that their spouses or children will be able to provide the care they'll need. But unfortunately, nothing may be further from the truth, as the family members may be physically and emotionally incapable of providing the necessary care, or the children are too busy and involved in their own lives.

All too often, individuals wait too long to consider taking advantage of the long-term care insurance option to pay for these expenses, and when they're ready to apply for the coverage, either their health or age or excessive costs prevent them from obtaining such protection. A long-term insurance contract can be purchased to provide a set dollar amount of \$100 to \$500 on a daily basis, indexed for inflation. The coverage can pay a benefit for a minimum of two years to a maximum of six years, after a waiting period. Most contracts are of a comprehensive nature, meaning they will pay for care in an insured person's home, an assisted living community or a skilled nursing facility. They will pay for all levels of care, including custodial care when an individual needs help with the activities of daily living (i.e., eating, bathing, dressing, transferring or continence), or just cooking and shopping, which can be provided by a home health aide or homemaker. Policy coverage will also pay for skilled care provided by a nurse or occupational therapist, as well as intermediate care, which is any combination of the above. One of the most important benefits of the coverage is to provide for the services of a "care coordinator," whose function is to set up many of the support services, such as arranging to transfer a person from a hospital to a rehab center, to one's home, to provide for aides, or to go to an assisted living community or a skilled nursing facility.

The reason many individuals are reluctant to purchase such a contract is they worry they might pay for a policy and then never need to collect the benefits.

As a result of the Pension Protection Act, an option called a “linked” or “combination” life and long-term care insurance product is available and allows an individual to access tax-free distributions from the death benefit of a life insurance contract to pay for any qualifying long-term care expense. The benefits from either plan can be accessed in case an individual is unable to perform two of the activities of daily living, or in the event of any type of a cognitive impairment, as diagnosed by their physician.

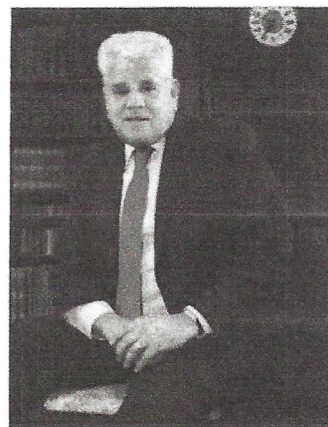
Also available under the Pension Protection Act is the ability to avoid tax on the gains of an annuity contract if it is used to purchase a long-term care contract.

A long-term care insurance contract is one of the best ways to provide a client the peace of mind that is so important, as well as protect an individual’s independence, dignity and retirement lifestyle for them or their spouse. A family is better off caring about their loved one, rather than caring for their loved one. To do this, a client should consult with an elder law attorney and explore the need to do pre-crisis planning while they are physically and mentally healthy. They should also consult with a CLTC One who is certified to discuss the various types of protection in the event of long-term care impairment prior to age 75, as they are not available after that age. A linked or combination benefit can be purchased beyond age 75 but can only be obtained while an individual is still healthy and can qualify for such coverage.

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Henry Montag CFP, Managing Director of The TOLI Center East in practice since 1976 with offices in L.I N.Y, has authored articles and acted as a source for NYSBA Senior Lawyer, NYSSCPA Tax Stringer, Tax Facts, Bloomberg's Estates Gift & Trust Journal, Trusts & Estate Magazine, Accounting Today, Long Island Business News, Financial Planning, & The Wall Street Journal.

He has appeared as a guest on Wall Street Week, Fox Business News & News 12. He's provided CPE & CLE continuing education credits to NYSBA, ABA, AICPA, NYSSCPA, & the estate Planning Council. He co-authored an American Bar Association Flagship publication, Jan 2017, titled; "The Advisors' & Trustees' Guide to Managing Risk" The Jan 2019 issue of Commerce Clearing House, referred to him as; "One of today's best brains in life Insurance.

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What the Professional Needs to Know About the Living Benefits of a Life Insurance Policy

By Henry Montag CFP®
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While everyone is well aware of and can provide several examples of the many uses of the “death benefits” of a life insurance policy, the same cannot be said of the various “living benefits” of a life insurance policy. The major reason people buy life insurance is so that when they die, their family, business partners, or other beneficiaries will receive a check from the insurer. Most are also aware that the proceeds from a life insurance policy can be received income- and estate-tax free, if set up properly.

Unfortunately, most people view life insurance as a stodgy document that you buy and put in a file drawer, only to be looked at when the insured passes away. That thinking worked up to the early 1980s when there were only two types of life insurance — term and whole life — which were both guaranteed. However, in the early 1980s, when E.F. Hutton created the first non-guaranteed Universal Life Insurance policy, everything changed.

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This article will focus on the fact that life insurance when thought of as an “asset class” can, in addition to providing a death benefit for beneficiaries, also provide significant living benefits for the insured/owner.

LIVING BENEFITS THAT FEW KNOW ABOUT

There are four specific types of living benefits that can be enjoyed by those aware of and able to take advantage of them. However, as a practitioner with 35+ years’ experience I speak with personal knowledge when I say that only a small number of policy owners and their advisors are aware of and understand many of the current living benefits available in a life insurance policy, capable of providing so much more than just a death benefit.

They are as follows:

1. The ability to withdraw funds from the death benefit of a life insurance policy to pay for qualified long-term care costs on a tax-free basis.
2. The ability to establish a tax-free exchange of cash value from a life insurance policy or an annuity to pay for long-term care costs or for a long-term care insurance premium.
3. The ability to accumulate cash value tax deferred and then distribute those assets and their gains tax free to supplement retirement funds at any point in the future.
4. The ability to sell a life insurance policy using a life settlement strategy to turn a premium bill into a significantly higher payout than an insurance company would pay.

Long-Term Care/Life Insurance Combination Policies

The Pension Protection Act of 2006 (PPA), which first became effective in 2010, marked a change in public policy on paying for long-term care. Since the largest financial burden for long-term care costs falls on state and federal governments, via Medicaid, many governmental officials were seeking ways to increase

the public's use of private long-term care insurance, which had stalled out at a dismal 9–10% of market penetration. They were hoping to provide sufficient incentives for the general public to purchase private insurance themselves, rather than seek the counsel of an elder law attorney to help a client shelter their own funds while artificially impoverishing themselves and going on the Medicaid rolls. So, in the early 2000s a joint effort was made between the insurers and the federal and state governments that this would be accomplished by the creation of several new and significant tax benefits for those who purchase a PPA-eligible hybrid, combo, or linked life insurance, or annuity policy.

One of the most significant changes resulting from the 2006 PPA was the ability for a combo/linked life insurance policy to pay for qualified long-term care expenses directly from the death benefit of their life insurance policy, tax free. In addition, it allowed for the tax-free purchase of a long-term care insurance policy from the otherwise taxable gains of a life insurance policy's cash value, or a single premium deferred annuity (SPDA).

The PPA also introduced a new crop of products that created significant leverage in creating a long-term care benefit that can create a dollar value three to five times greater than the initial lump-sum deposited into one of these new asset classes of policies. These policies are referred to as asset-based, combination, linked benefit, or hybrid policies. In addition to the tax benefits, leverage, and in many states additional tax credits, one of the most important benefits of these types of policies is that they have removed the "Use It or Lose It" mentality normally associated with a traditional standalone long-term care insurance policy.

Right up there with costs, the most popular reason for not purchasing private long-term care insurance coverage was the fact that if they never needed the coverage, they would have lost all of the premium dollars they had paid over the years.

For example, say a consumer buys a \$500,000 life insurance policy with an LTC rider. When the insured individual qualifies for LTC benefits (i.e., becomes unable to perform two of six activities of daily living (ADL) or becomes cognitively impaired), a set percentage of death benefit — 2% in this example — is available each month for LTC needs. This means that 2% of a \$500,000 policy would equate to a payout of \$10,000 a month for 50 months.

Another important benefit of the combo plans has been the ability to lock in and guarantee costs for long-term care premiums and, in doing so, prevent the significant premium increases that the purchasers of long-term care insurance have experienced over the last decade. These benefits, all the direct result of the

PPA, have been responsible for an increasing number of requests from wealthy clients deciding to use a combo/linked plan rather than seeking the advice of an elder law attorney to artificially impoverish themselves and seek financial assistance from Medicaid.

Maximizing Tax Benefits for Life Insurance and Annuities

Before the PPA, the "last in, first out" nature of taxation for annuities meant that accessing cash value to pay for LTC expenses or LTC premiums was a taxable transaction for contracts with a gain. The PPA changed this. For example, if an annuity with significant gain is rolled into a new PPA-compliant annuity, the entire value of the annuity could be used to pay for LTC costs, and the taxes on the gain would forever be avoided.

Another new aspect of the PPA is the ability to do a full or partial §1035¹ tax-free exchange into a standalone long-term care policy from a life insurance policy or annuity. This is another way to eliminate income tax on gain in the policies when pursuing long-term care solutions. For example, someone with a \$50,000 gain in a \$100,000 annuity would normally first have to pay taxes on that gain. However, if the money were transferred via a §1035 tax-free exchange into a hybrid product, they could eliminate the entire tax on the \$50,000 gain while leveraging the \$100,000 principal into a much higher pool of dollars available to pay for long-term care costs, a significant benefit. Unfortunately, these new combo/linked features are not available in policies issued prior to 2010, nor can a policy issued prior to 2010 be modified to provide these new benefits.

Individuals today are able to place new money, or transfer existing annuities with an otherwise taxable gain, into a single premium immediate annuity (SPIA) and use the full proceeds of that otherwise taxable flow of income (exclusionary ratio) from the SPIA to pay for an individual's or couple's long-term care insurance premiums, but only if the premiums are paid directly to the insurer from the SPIA annuity.

Tax-Deferred Accumulation Planning

The third form of "living benefits" generically involves retirement cash flow. These are often referred to as private pensions, deferred compensation, salary continuation, supplemental executive retirement plans or supplemental owner's retirement plans. The common denominator involves the strategy of richly fund-

¹ All section references herein are to the Internal Revenue Code (the "Code"), as amended, or the Treasury regulations promulgated thereunder, unless otherwise stated.

ing a life insurance policy, up to its modified endowment contract (MEC) limits, to intentionally build cash value over and above the expenses in the contract. Doing so allows the cash value to grow and accumulate, tax deferred, until a point in time where the full amount can be withdrawn, up to basis, and the balance borrowed as a loan. Assuming the withdrawal strategies are structured correctly, the loans never have to be paid back, meaning the withdrawals can be 100% income tax free so long as the policy survives the insured. This concept can be implemented through a variety of contracts with varying risk profiles.

For example, either a fixed-interest whole life insurance policy (WL) or a security-based variable life insurance (VUL) (which also serves as a framework for ultra-and high-net-worth life insurance known as private placement life insurance (PPLI) policy), or an indexed universal life insurance (IUL) can be used for accumulation purposes.

PPLI is most efficient for the ultra-high-net-worth individual. It differs from retail life insurance in several distinct ways. The institutional commissions are significantly lower than the traditional retail commissions. The health ratings of the class of people insured offer better mortality rates which the insurer passes on to the individuals being insured.

There are no penalties nor surrender charges for early withdrawals. There's also the benefit of using hedge funds as an investment vehicle rather than the traditional retail mutual fund sub-accounts. In addition, there are significant tax and investment advantages to using hedge funds in a tax-deferred life insurance policy where an investment manager doesn't have to pay capital gain nor ordinary income taxes every time a successful trade is completed. Recently, the government under §7702 has made it more advantageous for a larger percentage of one's premium dollars to be allowed to accumulate tax deferred in a life insurance policy without creating an MEC.

Also, among the various benefits of using life insurance contracts for accumulation purposes are no limits on contributions (unlike with qualified plans) and more flexibility in funding. Depending on the particular product, the plan design can be personalized and discriminatory, and money can be accessed tax free and prior to age 59 1/2 without penalties. In addition, there are no time limitations as to how long the accumulated assets can be held, thus offsetting the negative aspects of the SECURE Act which now limits to 10 years the time an inherited IRA can continue to accumulate tax deferred before it must be distributed and subject to income and estate taxes. Lastly, a life insurance policy as we all know also provides a leveraged death benefit that is 100% income-and estate-tax free, if it has been set up correctly.

In many situations the policy's premium can be shared with the employer for a key person, or for the

employer themselves through various cost sharing strategies such as a split-dollar arrangement where there is an arbitrage for taxation on a corporate dollar in a lower tax bracket as opposed to an individual's higher bracket.

Life Settlement

Market History

The life settlement market evolved in the late 1980s as a result of the AIDS outbreak, when terminally ill individuals were allowed to partially liquidate their life insurance policies to generate cash to pay for their medical bills. Subsequently, the market expanded to include older individuals as well as those with health problems. Until the 2008–2009 financial markets crisis, settlement practices were considered questionable, causing a number of states to regulate this market for consumer protection purposes.

Who Is Eligible for a Life Settlement?

While a life settlement can be entered into by anyone owning a life insurance policy, only those who are at least 70 years old, in poor health, and worth at least \$100,000 are likely to have their life settlement application accepted by their broker and turned into a funding source that is likely to provide an offer.

However, due to an ever increasing number of investors in the secondary marketplace, there is now an ability for a healthy 65 year old with an inadequately funded guaranteed universal policy, that has a minimum of \$250,000, to arrange for a life settlement.

The special license process for a life settlement broker clearly defines the fiduciary role of the broker representing the seller and outlines how this role should be documented to safeguard the interests of all parties.

The problem is that the majority of clients, and many of their advisors, are not familiar with the concept of a life settlement. In most cases, if a decision is made to no longer maintain coverage, an insured will either surrender the policy back to the life insurance company that initially issued the policy, or they will merely stop paying the billed premium and, by virtue of default, use up the accumulated cash value until the cash surrender value is no longer sufficient to pay the premium required to maintain the policy's coverage.

A far better alternative may be to utilize the secondary marketplace to obtain a higher offer from an institutional investor. Consumers and their advisors must be made aware that the death benefit is not to be reduced or surrendered without first exploring the benefits of a life settlement option, or some form of a partial life sale with a retained interest.

A life settlement, depending on a client's age and health, can provide an insured with an alternate exit strategy with a significantly higher payout than they would receive if they merely surrendered the policy for its cash value.

One such reason for the lack of discussion centers around the fact that many individuals, including their advisors, confuse life settlement with stranger owned life insurance (STOLI).

The latter occurs when an individual agent or broker induces an insured to purchase a life insurance policy for the sole purpose of selling it for a profit within a few years of purchase.

Such an arrangement is illegal, but a life settlement is not.

Clients need to be aware that an individual has the ability and right to sell a life insurance policy that is no longer needed or becomes too expensive, just as they would a home, a car, or any other personal property. One of the more common reasons why so few policyholders and advisors are familiar with the practice of selling an unwanted life insurance policy is that the insurance companies don't discuss such option, much preferring that the policy lapse — which allows them to keep all of the past years' paid premiums while never having to pay out a death claim.

Tens of thousands of American seniors ages 65 and older forfeit billions of dollars of life insurance coverage annually by lapsing or surrendering their policies, according to research at the Life Insurance Settlement Association's (LISA) Fifth Annual Institutional Investor Life Settlement conference (latest figures as of 2018). A survey of seniors conducted by Custom Market Research found that 55% allowed their life insurance policies to lapse and, further, 82% of the respondents were not aware that alternatives such as life settlement existed. In that same study, 79% of clients felt that advisors should inform them about a life settlement strategy. A study conducted by the Insurance Studies Institute (ISI) found that 90% of seniors who lapsed a life insurance policy would have considered a life settlement had they been aware of the strategy.

Recent Example

A recent case I just completed involved a 72-year-old man with a \$750,000 policy and a \$225,000 loan that accrued over the years as a result of him realizing that after the eighth year, he could maintain the policy without making a premium payment in the ninth year, and so he didn't make another premium payment for the next 11 years. In the process, he incurred significant loans, compounded by interest, that were not paid. In addition, there were net gains over the premiums paid as a result of increases in cash value and dividends.

At that point that I was asked to see if anything could be done to improve his situation as he didn't have the means to pay the significantly increased premiums to keep the policy in force, nor did he have the means to pay the additional taxes on the gains which would be due if the policy lapsed while he was still alive.

I introduced the concept of a life settlement and structured an arrangement with a buyer who was willing to take over the obligation to pay off the loan and continue paying the policy premium, thereby absolving the seller from a significant tax liability that he would have been responsible to pay.

Although the seller received no cash as a result of the sale of the policy, he was relieved of the potential tax liability and still retained a death benefit for a number of years, which made him and his family very happy.

The life settlement market, primarily funded by institutional buyers, has enhanced the consumer value of life insurance planning and has become a significant alternative to merely surrendering a life insurance policy that is no longer needed, wanted, or affordable.

This is of particular interest to many clients today, who are dealing with the harsh economic realities that their life insurance coverage is expiring prematurely as a result of sustained reduced interest rates and neglect on the part of their unskilled/amateur trustees, usually an eldest son or daughter, who wasn't aware that they should have been actively managing their policy by increasing their life insurance premiums to offset the lower interest crediting rates they were receiving from their insurance company.

A WORD ABOUT TAXES

Rev. Rul. 2009-13, issued on May 1, 2009, clarified that a policy seller may not use the amounts paid for cost of insurance charges to increase tax basis or reduce taxable gain.

Under case law discussed in the ruling, the IRS takes the position that a portion of premiums paid represents personal consumption of life insurance protection (the cost of insurance amount) and only the remainder of the premiums paid is the cost of an asset. As a result, policy sellers to third parties must obtain their information on cumulative cost of insurance from the life insurance company in order to calculate the adjusted basis (premiums paid less cost of insurance) and file their tax returns. Further, the IRS takes the position that the difference between policy cash surrender value and premiums paid — the net inside build-up the policy holder would have received upon surrender — is taxable as ordinary income, and the remaining balance is treated as capital gains.

CONCLUSION: EDUCATE YOUR CLIENTS ABOUT LIFE SETTLEMENTS

The secondary market provides a better exit strategy for a client who finds their life insurance policy no longer affordable, no longer needed for estate tax purposes, requires cash today, or wants to provide a gift to the next generation today while still here to appreciate the results of such.

While the responsibility of managing a life policy rests with the owner, keep in mind that 90% of such owners are the sons, daughters, or friends of the insured acting as unskilled or accommodation trustees, who for the most part are completely unaware of what is required to properly evaluate and manage their life insurance portfolio to prevent it from expiring prematurely. The other 10% are professional trustees that are fully aware of their client's options.

Be aware that some life insurance agents — whom one would expect to discuss the life settlement strategy with their clients — are also registered representatives with their insurance company's sponsored broker-dealer and as a result may have restrictions on their ability to discuss such strategy. The reason is many life insurance companies would prefer to see a

life insurance policy lapse in its 20–30th year because that way they get to keep all of the previous years' paid premium without ever having to pay out a death benefit. This adds significantly to their bottom line and they would prefer to continue this profitable practice of allowing approximately 8–10% of its in-force coverage to expire without ever having to pay out a death benefit. An educated consumer is not in their best interest.

So, rather than having your client merely surrender their life insurance policy back to the insurer simply because it's more convenient, or because they're not aware of any other alternative, consider educating your client on the benefits of retaining an independent experienced licensed life settlement broker who contractually affirms their fiduciary duty to the seller and assists your client in obtaining the best possible offer for the insured or trustee.

These amateur trustees, your next-generation client, could certainly benefit from being better informed regarding the matters mentioned above and could benefit from your advocacy and guidance. They and their families will thank you.

Safeguarding Clients from Long-Term Care Costs

July 8, 2015

BY HENRY MONTAG, CFP, CLTC



As your clients' most trusted adviser, how can you protect them from the financial threat and high costs of long-term care?

You basically have two initial choices. Let's assume your client is under age 75, relatively healthy and understands that an unexpected, unreimbursed long-term care expense is a real threat that can unravel their and their spouse's retirement plans and lifestyle. You can talk about "what if" scenarios, including the purchase of a long-term care insurance policy. Or you can avoid the fact that costs for care at home or in an assisted living community are in the \$60,000 to \$75,000 range, and that costs in a skilled nursing facility are in the \$125,000 to \$175,000 range

and are both increasing by 4 percent annually.

Should you have this unpleasant, difficult conversation with your clients? Since the odds of this problem affecting a client over age 80 is approximately 70 percent, it could make a great deal of sense to get your clients thinking about a solution to a problem they may one day likely face.

Where will the necessary funds come from to pay for these costs? Is there a readily accessible source of sufficient funds that will not trigger a large unnecessary taxable event when liquidated? Should the client self-insure against this threat or would it make more economic sense to purchase a long-term care insurance contract from one of the major insurers?

Having a long-term care insurance contract will not only provide your client with the dollars necessary to pay for some or all of the expenses associated with their care, but will provide them with independence and peace of mind, knowing they'll never be a burden to their kids or spouse. But will the costs be justified if they never need the coverage?

For clients who own businesses, depending on your client's particular corporate structure and age, they may be able to deduct the entire premium or a part of it. At a minimum most states have a 20 percent state tax credit for any individual. This is also one of the few times that an insurance benefit can be paid for on a totally discriminatory basis, i.e., for all officers and spouses, and then be taken as a 100 percent deduction in various corporate settings.

The second question becomes should I consider keeping all or a part of the exposure to a long-term care expense? Should I self-insure or share the risk with an insurer? Is it less costly to self-insure? Is this the best

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use of my assets? What type of an investment of my asset is this? Keep in mind, the premiums paid for this coverage isn't an investment at all. Instead it's a cost of protecting assets against a likely loss.

A long-term insurance contract can be purchased to provide a set dollar amount of \$100 to \$500 on a daily basis. The coverage can pay a benefit for a minimum of two years, up to a maximum of six years, after a 90- to 100-day waiting period. Most contracts are of a comprehensive nature, meaning they will pay for care in an insured's home, an assisted living facility, or in a skilled nursing facility. They will pay for all three levels of care, custodial care, as well as skilled care and anything in between.

The primary reason why many individuals are reluctant to purchase such a contract is because they're concerned about the waste of annual premium dollars if they pay a premium and then never need to collect the benefits. Many others are under the impression that they'll be better off if they merely self-insure.

In an effort to encourage private individuals to purchase a long-term care contract, and overcome the preceding two concerns, the insurance industry, in conjunction with the federal government, recently enacted legislation effective Jan, 2011, as part of the 2006 Pension Protection Act. This act allows an individual to access up to \$120,000 in 2015, annually adjusted for inflation, on a tax-free basis from the death benefit of a life insurance contract, if it's used to pay for a qualifying long-term care expense.

If your clients are healthy enough to purchase a long-term care insurance contract, they now have three choices:

1. They can purchase a stand-alone traditional long-term care contract ideally suited for the younger client aged 45 to 60.
2. They can choose one of the newer hybrid/combo policies combining a life insurance contract with a long-term care rider or a chronic care rider.

Although each option allows for a tax-free distribution of death benefits for a qualified long term care expense, there are significant differences between the two options. The long-term care rider has an upfront charge, but no additional cost when the benefit is used. In contrast, the chronic care rider has no upfront charge, but an interest charge is imposed if and when the benefit is actually used. Clients should not inadvertently confuse these two cost structures, as that would be like comparing apples and oranges. They're ideally suited for clients aged 60+ who have an existing need for permanent insurance and secondarily a desire to have access to a tax-free withdrawal to pay for long-term care expenses if needed.

3. Also available as of Jan, 1 2011 is the ability to avoid tax on the gains of an annuity contract if it is used to purchase a long-term care contract.

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For example if an individual started with a \$50,000 single premium deferred annuity and it grew to \$100,000, previously an individual would first have to pay the tax on the \$50,000 gain. If, however, that same individual placed the same single premium annuity into a linked/combo annuity, he or she would have the full \$100,000 available as there would be no tax due. Plus they would have the leverage of a long-term care insurance policy, which for a 65 year old would bring the net amount available to pay for long-term care expenses up to approximately \$350,000 to \$400,000.

Lastly the adviser should be aware that as a result of many insurers having priced their long-term care contracts incorrectly over the last 20+ years, primarily due to erroneous assumptions regarding earnings, drop rates and utilization rates, many of these companies are now attempting to raise rates. One such company is in the process of obtaining a historic 50 to 60 percent rate hike. My concern is they will use that significant increase as a bargaining chip to encourage older existing policyholders to give up and scale back various benefits they previously have purchased, i.e., a larger daily dollar benefit, a longer benefit period, a 5 percent annual compound inflation rate. In any event it will cast a further negative and worrisome message to those currently considering purchasing a long-term care insurance policy.

If at all possible, a client should not give up these valuable benefits on a wholesale basis and should carefully consider which if any benefits to drop, and pay the higher cost. Once they give up these higher benefits, they will never again be able to replace them, which is exactly what the insurers are hoping to accomplish with these significant rate hikes.

In my opinion a client should consider purchasing a long-term care insurance contract in their mid to late 50s, when their youth and good health will allow them to purchase this valuable protection at a lesser cost. One way to offset the fear of increasing future rate hikes is to purchase an individual or second to die combo/hybrid policy, or a traditional policy that pays a future dividend to offset future increases.

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