# Wealth and longevity planning

## Creating efficiencies for taxes and wealth distribution

Paying for long-term care can have a significant impact on wealth, even for high-net-worth clients. Many affluent individuals understand the need for insurance in business and estate planning. They value the ability to leverage their assets and the protection and tax advantages insurance can deliver. They're also concerned about their legacy and protecting the wealth they have generated to pass it on to their heirs or charities in the most efficient manner. Preparing for longevity includes plans to mitigate the various risks clients face as they age and ensure their wealth is preserved to achieve their goals, maintain flexibility, and preserve future plans. Paying for unexpected and costly care expenses over a period of years can interfere with these intentions.

Let's address high-net-worth clients. Some financial professionals have described them as being able to "buy the nursing home" — an emphatic way of saying they have the means to "self-insure" whatever care costs they face in the future. But there is no such thing as "self"-insuring. When clients plan to pay these expenses out of pocket, it will typically be done through a dollar-for-dollar reduction of income or assets, rather than a transfer of risk. This is just scraping the surface of what it truly costs to "self-fund" long-term care with after-tax dollars and assets intended for other purposes. Just as importantly, this plan is often not one that has been formalized and it can have immediate and long-lasting consequences for your clients and their families, not to mention the assets you are managing for them.

Consider Jack, a 60-year-old professional who is in good health, married, and has three adult children in their late 20s. Planning to retire in five years, Jack and his family have amassed a net worth of $30 million. For long-term care planning, Jack proposes setting aside $1 million from his portfolio, ensuring it remains untouched for this purpose. He believes he can achieve better investment returns than an insurance company and prefers the flexibility and control over his assets if the funds are not needed for long-term care.

However, Jack's plan overlooks two key advantages of transferring the risk to an insurance company: leverage and tax benefits. He would have $1 million tied up and any growth in his investment account would be subject to income taxes. An alternative strategy would be to allocate $520,800 of his portfolio to purchase a $2 million life insurance policy with a long-term care rider. This allows the asset to grow income tax-free and provides tax-free access to the policy for long-term care expenses, up to $40,000 per month. If Jack does not require long-term care, the policy offers an internal rate of return of 5.52% at life expectancy. To match this in his investment account, Jack would need to achieve an 8.49% return. Moreover, this strategy means his estate plan will remain intact without needing adjustments for long-term care costs.

No matter how high a client's net worth, any unplanned withdrawal from an investment account can have a significant impact on the viability of their long-term financial plans. Lower account balances due to care costs, coupled with negative returns in the markets, create a significant challenge for any financial professional to recover to a previous level. Even with positive market returns, the ongoing care costs that have debited these accounts will create a headwind towards growing these investment accounts to levels attained before care was needed. Regardless of market performance, withdrawals needed to pay for long-term care, can interrupt the growth of investment portfolios. If paying for care with qualified accounts, additional money will be needed to pay for taxes due on distributions. When paying for long-term care from the portfolio, it can reduce assets under management (AUM) and create tax inefficiencies. When combined with market volatility, this can significantly reduce AUM.

Long term care costs can also have a negative impact on estate and legacy plans. Paying care costs out of pocket for an extended period of time can reduce what heirs receive as an inheritance or what charities receive through donations. The costs of care may be unavoidable, but having an income tax-free source of liquidity can help prevent additional expenses associated with selling assets in a down market or withdrawing additional amounts from a retirement account. When the next generation experiences the financial chaos of long-term care with a parent or grandparent, they may choose to invest their assets with a different financial professional, one who incorporates long-term care costs into a financial plan.

## Mitigate the long-term care liability

High-net-worth individuals often face complex tax situations, including higher income and capital gains tax rates, as well as state and federal estate taxes. Most clients and their financial professionals look to employ strategic tax planning to help preserve wealth and mitigate loss. Many financial professionals understand that this strategy also works well for long-term care expenses. Instead of paying for care with the income and assets from their client's portfolio, many raise the question: "Why take on the entire risk when you can transfer the majority to an insurance company?"

Clients and their financial professionals can proactively plan to pay for long-term care costs by allocating a portion of assets within their estate. However, rather than dedicating a specific account or investment, insurance solutions can offer greater tax-advantaged leverage. For those who understand how insurance can be used to meet financial goals and see the value in transferring risk to an insurance company, there are a variety of products that can be used to assist with this strategy. Living benefits, including riders on life insurance and asset-based long-term care products, offer income tax-free benefits to pay for long-term care, for pennies on the dollar. These products can help formalize how care will be paid, thereby reducing the need to deplete personal assets or to disrupt estate and tax plans. Depending on the product selected, insurance can also provide heirs money through a death benefit or return of premium, thus preserving generational wealth and legacies. This can preserve the client's current financial well-being and their future plans to distribute their assets.

Let's look at a hypothetical example. In 2010, Ann purchased a $5 million life insurance policy with a long-term care rider after her husband's death. A decade later, she suffered a stroke and needed help with Activities of Daily Living (ADLs) to stay in her home. She didn't want to burden her children, who lived several hours away and had young families of their own. From her policy, Ann used tax-free benefits to cover the cost of a home health aide who provided 24-hour care, enabling her to safely remain at home. The care cost $25,000 per month, amounting to $300,000 over the course of the year.

Had Ann withdrawn this same amount from her brokerage account, she would have faced taxes on the capital gains. Alternatively, if she had taken the money from her retirement account, she would have needed to withdraw a higher amount to net $300,000 after taxes.

This strategy not only ensures coverage for potential long-term care costs, but it also provides peace of mind that her estate planning objectives can be met without having to adjust for unforeseen healthcare expenses.

In addition, families often appreciate other benefits these products can offer, such as care coordination and concierge services when care is needed. These benefits can add value beyond the financial benefits to families to help them navigate the long-term care continuum and provide access to quality care and service providers. High-net-worth clients won't typically compromise on their care; these types of products can help meet their high standards to help them remain comfortable and safe in their home, for as long as possible.

Planning for longevity includes both accumulating and distributing wealth. Living benefits can be incorporated within financial plans to aid in both goals. Insurance can help ensure clients can spend and pass on their assets in an efficient and effective manner. Paying care costs for several years can get in the way of these intentions. Living benefits continue to illustrate the expansive role insurance can play in protecting estate plans, tax plans and legacy plans, while simultaneously helping financial professionals preserve their business model as they help address all aspects of longevity planning.



MLINY101024098-1