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The Advisor's Edge
Sales Strategies You Can Use

The Real Cost of Self-Funding Long-Term Care

Derek Wakefield
LTC and DI Specialist

If you have high net worth clients, chances are they have told you they plan on self-insuring themselves against the risk of a long-term care event. They have plenty of liquid assets to put away into an emergency fund should the need arise. If the truth be told, this may not be the most advantageous strategy, although it can appear to be the most logical.

Self-funding requires assets that are readily available and, therefore, accessible in their estate. If the client depletes most of these funds due to LTC expenses, then their plan worked since they have little left on the table. However, if few or no LTC expenses arise, then there could be a substantial cost at the time of death in the form of estate taxes. These taxes can be as high as 40% and pose a serious threat to a client's asset pool.

A more efficient strategy would be to reposition the portion of those assets that would be lost to estate taxes into a hybrid LTC policy. This will create substantial leverage in the form of LTC benefits, while also providing liquidity in the form of return of premium options. If LTC benefits are never needed, the policy will provide a death benefit of equal or greater value to the premiums paid. If LTC benefits are needed, a leveraged pool of tax-free benefits will be available to pay the client's expenses.

Consequently, only a portion of the client's liquid assets will be exposed to estate taxation at the time of death rather than the entire sum. High net worth clients certainly have the necessary assets to self-fund for a long-term care event; however, the question is "is doing so, the most efficient use of their assets?" Repositioning these assets into a leveraged strategy rather than simply storing them in an emergency fund is another step towards providing your clients with a sound retirement plan.

Derek Wakefield is a LTC and DI Specialist at First American Insurance Underwriters. He can be contacted at **781.449.6800** *or* **dwakefield@faiu.com**. *First American Insurance Underwriters helps financial advisors design and implement the most appropriate insurance solutions for their clients. We specialize in Life Insurance, Long-Term Care, Disability Income, and Annuities solutions for personal and business planning.*

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