Long-Term CareTrust

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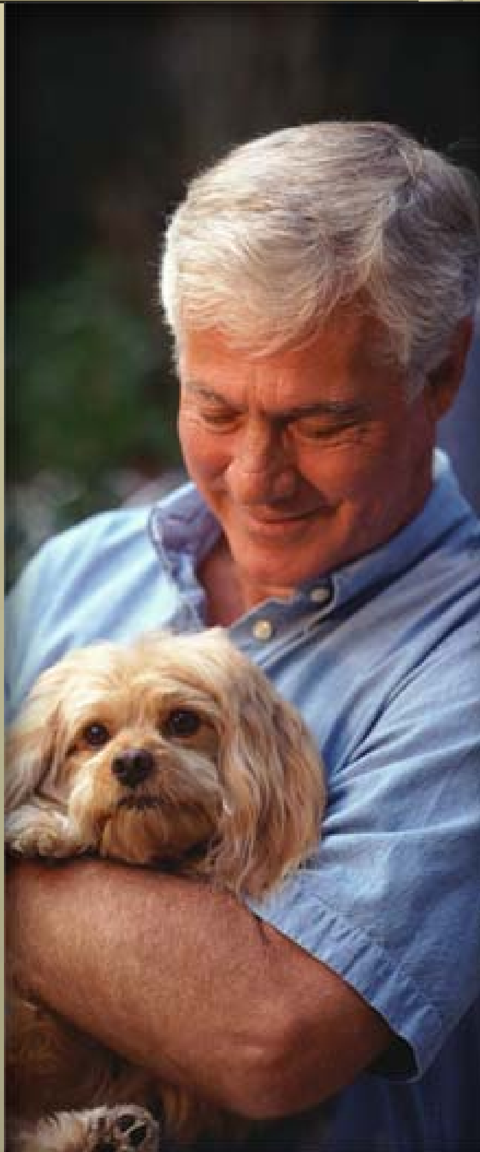
Mutual of Omaha

Affluent Problems

Problems of the affluent (when it comes to long-term care expenses):

- Lack of liquidity
- Conflict among decision makers
- Impact on current estate planning



Affluent Beliefs

Many affluent believe in the concepts of

SELF FUNDING

&

SELF PLANNING

Consider This:

Federal Estate Tax (2005 Maximum)	**47%**
Federal Income Tax (2005 Maximum)	**35%**
Shrinkage from Long-Term Care Expense	**Unlimited**

What If...

What if a plan can be developed that allows the client to:

- Isolate assets to be used
- Leverage existing assets to their best advantage
- Plan for the transfer of decision-making authority

One Solution

The X-Trust

Ideal Candidate

The grantor is an affluent individual– one who has plenty of funds to pay for future care if needed (protection of those assets would be nice).

Maybe the family isn't as close (geographically or philosophically) as it could be. Conflict could be on the horizon.

Ideal Candidate

Maybe care is a concern–

not just from a funding standpoint.

Benefits

- This trust can “wall off” assets to be used for future care. Decisions about care are made here (with input from family and other advisors)
- This allows other estate plans to operate as intended

Benefits

A benefit may also be available upon the death of the client.

3 Areas to Address

- The trust document
- The trustee
- The trust funding

The Trust Document

- Revocable (allows grantor to make changes as circumstances change)
- May become irrevocable at some time or upon a certain event (such as a benefit trigger or whenever the grantor is no longer able to act as trustee)

The Trust Document

- Provides funds for the care of the grantor as trust beneficiary
- The funds may come from:
  - Long-term care insurance
  - Other assets owned by the trust
  - Gifts

The Trust Document

- Any remaining benefit could go to a charity or charities

Trustee

- Grantor may be (probably will be) the initial trustee

Trustee

Successor trustee(s) may become appointed at some future time:

- At a given age
- When policy benefits are payable
- When the grantor decides
- When the trust becomes irrevocable
- Etc.

Successor Trustee

Possible Successor (Co-)Trustee(s):

- Family members
- Financial institutions
- Trusted advisors
- Care coordinator (?)

Successor Trustee

What if a care coordinator was a trustee?

- Knowledge of care options
- Knowledge of administrative issues
- Access to funding from trust assets
- Willingness to accept liability?

Successor Trustee

The trustee manages benefits received from long-term care insurance policies:

- Pays facilities, care givers, extras
- Pays trust expenses, taxes, fees
- Invests remainder
- Makes transfers to charity

Successor Trustee

- Provides funding for care decisions made by client or agent
- Would **NOT** necessarily manage outside assets

Successor Trustee

- This individual could also be given powers under medical directive (in a document separate from the trust)

Trust Funding

Long-Term Care Insurance Policy:

- Indemnity policy
- High (maximum) daily benefit amount
- Inflation protection
- Return of premium at death

Medical Directive

- **Agent appointed**
  - Usually a family member or close friend
- **Decisions regarding care are made:**
  - When the client is not able
  - When the document states

Medical Directive

The agent could be, but is not required to be, the same party as trustee of the trust.

Pros / Cons

Needless to Say

Provisions of the medical directive (care decisions) should be coordinated with the provisions of the trust (source of funds).

Example

Example

Pat Griffin:

- Age 50
- Affluent (very)
- Doesn’t want to be a burden on the children
- Doesn’t want to cause conflict among the children

Example

Pat creates a trust:

- Pat is trustee and beneficiary
- The trust is revocable
- A charity is the successor beneficiary
- The trust owns and is beneficiary of long-term care insurance on Pat

Example

- Daughter (Meg) becomes trustee when Pat is no longer able or desires to make decisions
- The trust becomes irrevocable when Pat is no longer able to make decisions or when Meg becomes trustee

Example

› Daughter (Meg) is appointed as agent under Pat's medical directive

Example

Long-Term Care Insurance on Pat:

- Owned by the trust
- Beneficiary is the trust
- Premiums are paid by Pat

Example

For this example, the policy provides:

- An indemnity benefit of $500 per day
- Compound inflation rider (5%)
- Lifetime benefit period
- Return of premium feature

Example

The effects of compounding (5%) on benefits:

$500

Per Day (today)

Becomes

$1,326

Per Day (in 20 years)

Example

Or stated another way:

$182,500

Per Year
(today)

Becomes

$483,990

Per Year
(in 20 years)

Example

When Pat needs care, some amount between **$182,500** and **$483,990** will be added to this trust **EVERY YEAR**.

NOTE: Benefits in excess of the allowable per diem amount or actual expenses, whichever is higher, are taxable as income to Pat.

Example

- What Pat doesn't use will be accumulated in the trust
- At Pat's death, assets in the trust will pass to a charity, including any refund of premium

Example

All decisions are made by Pat until:

- Pat gives that ability to Meg
  - Successor trustee provisions apply
- Medical professionals determine lack of capacity
  - Successor trustee provisions apply
  - Provisions of medical directive apply

Other Considerations

The spouse (or life partner)
can be included as:

Trustee
Agent
Beneficiary

Other Considerations

Premiums paid by a C-Corporation may be:

Deductible

Not includible as income

Decisions to be Made

Provisions of the Trust

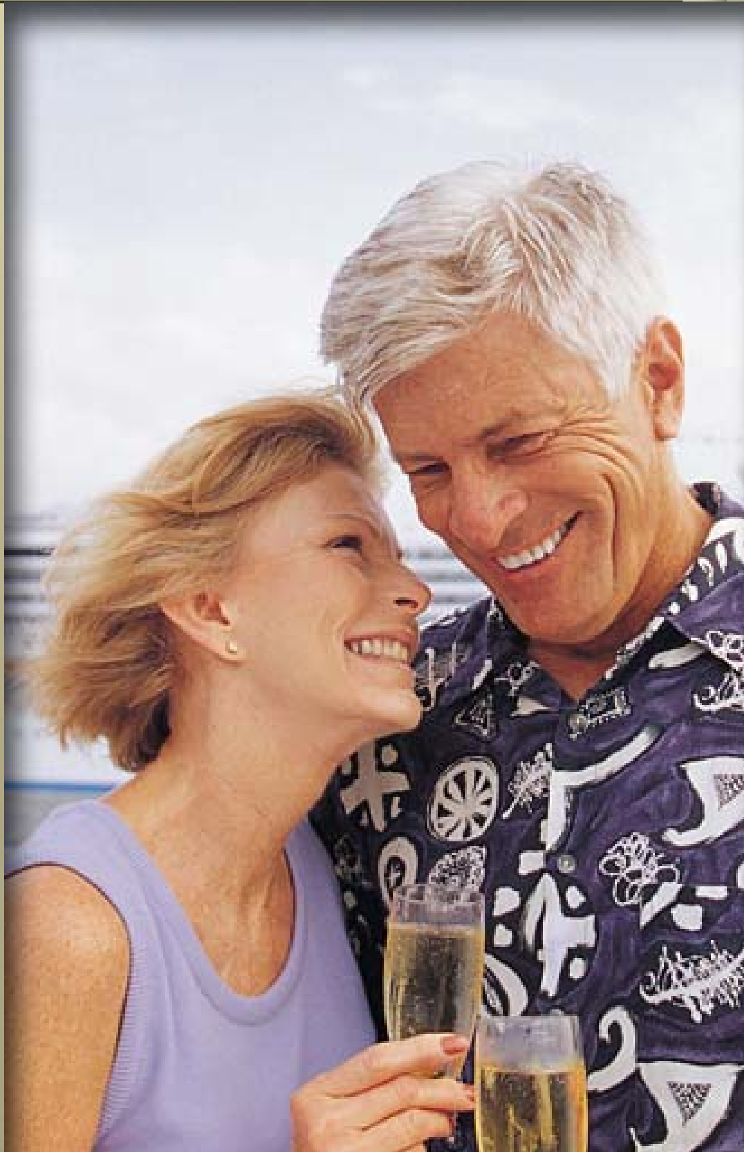
Product Provisions/Variations

Medical Directive Provisions

This is about:

› Planning

› Peace of mind



Advanced Planning with LTCi

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Charitable Donations

- Charitable organizations need funds
- Community Fund endowments as low as $10,000
- Donors logically must be cautious if they (or spouse or other relative) are subject to a significant financial LTC risk
- If we remove/tame the financial LTC risk, donors can more freely make donations
- Donors can see the benefit of their donations (their legacy) while still alive; they can help guide the use of the money

Solution: sell LTCi to donors

Charitable Remainder Trusts in general

- Concept: put [appreciated] asset in irrevocable trust for charity, take some income for yourself
- Capital gains avoided; so more money is at work
- Likely higher yield as well
- Income = fixed dollar annuity (CRAT); or
  5% to 8% unitrust (CRUT)
- Current tax deduction = present value of the donation reduced by the present value of the income stream
- Life insurance frequently used outside CRT to replace the donated assets for the benefit of heirs

Charitable Remainder Trusts and LTCi

- LTCi:
  - Removes exposure, thereby freeing $ up to donate
  - Or protects remaining assets outside CRT, if already planned a CRT
  - Is purchased w/funds outside CRT or income from CRT
- Risk: if LTCi premium increases, how pay?
  - Income and assets outside CRT
  - Perhaps income from CRT exceeds original premium
  - If taking 5%-8%, that amount might increase over time
- Risk: LTC costs might inflate at high rate

Charitable Remainder Trusts LTCi Design Issues

- To free up the largest donation, use low EP
- WP is not necessary (income stream continues while on claim; risk: premium increases)
- Full Return of Premium could add to amount that the charity receives on death (with no current tax deduction) or could be left to heirs

Charitable Remainder Trusts Life Insurance and LTCi

- (Survivor) life insurance and LTCi
- Could use Combo product?
  - Need Lifetime BP for both spouses
  - May fail to cover LTC needs and ALSO return principal to heirs, so separate products are better

Charitable Remainder Unitrust (CRUT; % Income) Example

- Age 65 (both spouses)
- Amount placed in trust: $400K (cost basis: $200K)
- Survivorship life insurance death benefit: $500K
- LTCi benefits: $150/day; LT BP; 30 day EP; CBIO
- Income from trust: 6% = $24,000
- Premiums: Life Ins. ($7,000) + LTCi ($10,500)
- Income in excess of premiums: $6,500
- Tax deduction: $118,036

Charitable Gift Annuity Trust (CRAT)

- Form of CRT but pay-out is not a % of asset
- Charity contracts to pay an annuity
  – Can be joint or deferred annuity, etc.
  – Payout terms set by American Committee of Gift Annuities (donor could accept less)
  – Charity could turn around and buy annuity from an insurer to protect itself or could self-insure
- Charity gets what is left on death; could take a loss if they don’t insure their risk

Charitable Lead Trusts in general

- Reverse of CRT. With CLT, charity gets income; heirs get principal back (or returned after fixed period)
- Can choose to return only part of the principal to heirs
- Income all tax-free as long as it goes to charity
- Particularly useful if itemized deductions are limited (set donor up NOT to be owner of the trust)
- Current tax deduction possible, but often not desirable

Charitable Lead Trusts and LTCi

- LTCi can:
  - Remove exposure, thereby freeing $ up to donate or for longer time (i.e., until death)
  - Or protect remaining assets outside CLT, if already planned a CLT
- LTCi premium comes from outside CLT
- Risks: inability to get cash out of trust even if:
  - LTCi premium increase
  - LTC costs might inflate at high rate

Charitable Lead Trusts
LTCi Design

- To free up the largest donation, use low EP
- No need for life insurance
- Could buy Return of Premium for Charity (with no current tax deduction) or for Heirs

Other Topics

- Discussion of Charitable & Trust Uses
- Special Needs Children
- Substandard Annuities
- LTCi as a Disability Income alternative