

Gift LTC Coverage Before the Sunset Catches you Crying

Shawn Britt – CLU, CLTC

Director – Long-term Care Initiatives, Advanced Consulting Group

Yes, I just dated myself. That old British Invasion song from the '60's, "Don't Let the Sun Catch you Crying" comes to mind as we approach 2026 and the potential for the current estate tax exemption to sunset. The Tax Cuts and Jobs Act of 2017 (TCJA) created a historically high estate tax exemption; but it was not made permanent. Thus, if Congress does not extend the exemption or make the current estate tax exemption permanent, it will expire on Dec. 31, 2025. The result would be a substantial cut in the exemption in 2026, back to \$5 million per person plus the applicable inflation. The final estimated 2026 exemption would be around \$7 million to \$7.5 million per person, or \$14 million to \$15 million for married couples¹.

A ray of sunshine behind the clouds

There is some good news and an opportunity to still take advantage of. Should sunset occur, there will not be a claw back of exemptions used prior sunset. For 2024, the estate tax exemption is \$13.61 million per person, or \$27.22 total for married couples. Therefore, high net worth (HNW) individuals have until the end of 2025 to utilize unused exemptions that could be eliminated in 2026. Numerically, this provides a chance to utilize unused exemptions that exceed approximately \$7 to 7.5 million per person, up to \$13.61 million per person, or the 2025 maximum. This allows for some last-minute thoughts to gifting that could help family members preserve or enhance wealth for future generations.

Why long-term care coverage for the high net worth?

Typically, HNW individuals can afford to self-fund long-term care (LTC) expenses. But is it the best use of their dollars? The HNW created wealth in part by effectively leveraging assets, so why stop now? In addition, when the HNW have an LTC event, they often want to receive care in their own home, and if twenty-four-hour-a-day care is needed, that could get quite expensive.

Using today's average cost of home health care, 24/7 care at home can exceed \$260,000 annually². That is just the national average. In more prestigious communities, today's annual cost could be much higher – into the \$300K or even \$400K range per year. Imagine what the cost of full-time care at home could be twenty, thirty, or forty years from now. For HNW individuals hoping to receive care at home until the end, having substantial LTC coverage in place can make sense to keep wealth protected and growing.

Cash Flow

Looking at the situation from another perspective, the HNW pay attorneys to help shelter their estates from excessive federal estate and other types of taxation. Can their estate afford to pay those taxes? If the required cash flow exists, then yes. It would just leave heirs with less inheritance. But for HNW individuals who want to "leave it all" to their heirs, or whose estate is not flush with cash to pay estate taxes, the purchase of life insurance provides the needed liquid cash to fulfill estate tax obligations.

How does this tie to long-term care? The same concept applies here as well. If the HNW are using excessive cash flow to receive 24/7 care in their home, the estate could still face the challenge of being short of liquid funds that don't require the selling off of assets to pay estate taxes. However, having LTC coverage can provide the needed cash to receive care at home – which can help preserve cash flow for other estate settlement needs.

Control and Flexibility

High net worth individuals also like to maintain control and flexibility in their lives, and that will not likely change should they need long-term care. Having pre-leveraged LTC benefits, off to the side and not tied to market performance, can provide them the freedom to keep their invested assets in place – either to continue to grow in an up market, or recover in a down market. Regardless of wealth, people like seeing their monthly statement continue to grow in value, not be depleted.

The HNW may also be more likely to use alternative care services. For HNW clients looking for more unique solutions for their care, a policy that pays cash indemnity benefits may better fit their needs and allow for more control of care choices, since the insurance company places no restrictions on how the benefits are used.

Purchasing LTC coverage for family members using the exemption

For HNW parents with adult children, gifting those children a linked benefit (hybrid) LTC policy that includes inflation can provide substantial LTC benefits to help preserve, protect and grow family wealth.

The idea is for a HNW parent(s) to gift a guaranteed paid up policy - paid for with a single premium – to their adult child/children, which can help use up what remains of the available lifetime exemption that could be lost with sunsetting. As such, the adult child would now own a linked benefit hybrid LTC policy with guaranteed benefits that continue to grow over time. By the time the LTC benefits would likely be needed, the policy should significantly help cover, if not totally cover, the expense of 24/7 home care. Of course, the outcome depends on the age of the adult child at policy issue, and how long the policy has to inflate before LTC benefits are needed.

Could this work in reverse? Of course. High net worth adult children with parents of more modest means could gift LTC coverage to parents that they may otherwise have to financially support should a LTC event occur.

Case Study #1

Let's start with a couple who wish to buy linked benefit LTC coverage for each of their two adult children, a married daughter aged 45 and a married son aged 47. Their goal is to purchase each child LTC coverage that will pay for extensive home care should that ever become needed; and pay for each policy with a single premium to take advantage of being able to use unused estate tax exemption amounts before they expire.

Female 45, non-tobacco, married

- **\$250,000 single premium**
- 6-year benefit, cash indemnity
- 3% compound inflation
- **\$432K** death benefit if not used

- Age 65 LTC - **\$2.52 million benefit pool**
- Age 65 Monthly LTC benefit - **\$32,500**

- Age 80 LTC - **\$3.9 million benefit pool**
- Age 80 Monthly LTC Benefit - **\$50,600**

Male 47, non-tobacco, married

- **\$250,000 single premium**
- 6-year benefit, cash indemnity
- 3% compound inflation
- **\$487K** death benefit if not used

- Age 65 LTC – **\$2.68 million benefit pool**
- Age 65 Monthly LTC benefit - **\$34,600**

- Age 80 LTC - **\$4.18 million benefit pool**
- Age 80 Monthly LTC Benefit - **\$53,800**

Using this strategy, the parents have provided approximately \$4,000,000 of LTC coverage for each child at age 80, helping their children to preserve their own wealth and cash flow should a LTC event occur. If the parents also wish to buy similar policies for their two children's spouses, a total of \$1,000,000 of lifetime estate tax exemption could be used. A similar joint life version of this type of policy with a shared LTC benefit pool, could also be used for an adult child and their spouse.

Case Study #2

How could this work for HNW adult children who decide to gift a policy to parents or a parent that may not have their own means to pay for LTC costs? Using a guaranteed joint life linked benefit (hybrid) LTC policy with a shared benefit pool:

- Insure parents aged 68 (F) and 70 (M)
- Gift a joint life LTC linked benefit policy paid for with a \$500,000 single premium
- This would purchase \$1,730,000 in total shared benefits (no inflation used to ensure a higher amount of coverage if LTC needs come sooner than later)
- They will share 96 monthly payments of \$18,000 each. They can each collect \$18,000 at the same time.
- And if the policy is not used, a tax-free death benefit of over \$648,000 would be paid to beneficiaries, which would more than recover dollars paid for the policy.

Of course, individual policies could be used as well, but a shared pool of benefits make may more sense depending on the situation.

How Nationwide Can Help with this Concept

Nationwide has three linked benefit LTC polices that can be used with this concept and provide benefits similar to what is shown in the case studies; CareMatters II for individual coverage, CareMatters Together for joint life LTC coverage with a shared LTC benefit pool ,and Nationwide YourLife CareMatters individual coverage in New York.

For cases where life insurance protection may be a more needed gift, the Nationwide LTC Rider can be added to most life insurance policies. Do keep in mind that this rider does not offer inflation on the LTC benefit.

Final thoughts

There is no guarantee that sunseting will occur, so any gifts made using the current estate tax exemption should be gifts that make sense whether the estate tax exemption sunsets or not.

Individuals and couples should not use liquid funds they cannot afford to use – particularly if the sunset does not end up occurring, and gifting could have waited until a better time when the individual or couple was more flush with easily accessible cash assets.

For the HNW who can afford to make gifts, buying LTC coverage for family members is one effective way to extend and protect future wealth that could benefit children, grandchildren and future generations.

¹Tax Policy Center Briefing Book: Key Elements of the U.S Taxing System, accessed 2/29/2024

²A Place of Mom – "How Much Does 24/7 Home Care Cost in 2024? An In-Depth Guide" – May 9, 2024



This material is not a recommendation to buy or sell a financial product or to adopt an investment strategy. Investors should discuss their specific situation with their financial professional.

Federal income tax laws are complex and subject to change. The information in this memorandum is based on current interpretations of the law and is not guaranteed. Neither Nationwide, nor its employees, its agents, brokers or registered representatives give legal or tax advice.

Nationwide, the Nationwide N and Eagle and Nationwide is on your side are service marks of Nationwide Mutual Insurance Company.
© 2024 Nationwide

NFM-24089AO (07/24)