Crump

Long Term Care

Reframing the Long Term Care Conversation

A Strategic Approach to Wealth Transfer for Ultra-High-Net-Worth Families

Many ultra-high-net-worth families focus on investments, retirement strategies, and wealth transfer to preserve generational wealth, often overlooking one crucial element: extended care planning.

As a financial professional, you know how difficult it can be to approach this topic with ultra-high-net-worth clients who don't spend or think like everyone else. Their significant resources lead many to dismiss the need for long term care insurance (LTCi), a decision further complicated by financial projections that frequently underestimate the actual cost of the type of care they would prefer. This makes it challenging to illustrate the potential impact of not having a comprehensive extended care plan.

Extended care planning goes beyond simply purchasing long term care insurance (LTCi). It requires initiating an engaging and educational conversation to help you and your ultra-high-net-worth clients clarify their objectives and explore options that meet their unique needs. For instance, discussing their likely preference for 24/7 in-home care rather than a nursing facility opens the door to demonstrating the significant costs involved. This allows you to shift the focus from self-insuring (or more accurately, self-paying) to a broader discussion about how the lack of an extended care plan can impact their wealth and family dynamics.

Why is extended care planning necessary for families with significant financial resources? Let's take a closer look at the cash flow consequences and potential impacts on generational wealth.

Through 2045, **$72.6 trillion in wealth will transfer** to heirs.[1] However, rising health care and **long term care costs** remain **major drivers of wealth depletion**, impacting both retirement and generational inheritance.[2]

The Rising Costs of Extended Care

Today's long term care services can be shockingly expensive. On average, healthcare costs for conditions like dementia can exceed $1,000,000[3], depending on the services needed. Unfortunately, many financial planning tools fail to account for the specific needs of ultra-high-net-worth clients, often generating lowball estimates based on assumptions like nursing facility care. For instance, these tools might project a $400,000 expense, which may seem insignificant to ultra-high-net-worth clients. However, according to Nationwide's Financial Cost of Care Calculator, the national average for 24/7 in-home care is $270,140 annually, with the average length of cognitive care ranging from four to eight years. The long term care financial impact becomes even more substantial when factoring in healthcare inflation—typically 46% higher than standard inflation (which can cause future care costs to be exponentially higher than current projections). For clients planning to pay out of pocket for a minimum of four years or more, this raises several key questions:

- How will extended care costs impact the family's cash flow over time?
- How will the next generation perceive and manage the potentially substantial financial expenses?
- What are the tax implications of setting aside millions for potential care costs?

Even if your client can afford to set aside more than $1,000,000 for in-home care expenses, it's vital to consider the **potential tax implications of holding an extra $1,000,000 to $2,000,000 in their estate** if care is not needed.

The Hidden Risks of Self-Paying for Long Term Care

Many wealthy families view self-paying for extended care as a sign of financial independence. However, this approach can obscure critical risks. By incorporating extended care planning into your holistic wealth management strategy, you can help clients see that LTCi premiums are not merely an added expense but a valuable tool for reducing overall care costs. Your conversations with ultra-high-net-worth clients should address the following key considerations:

- **Stress Testing an Existing Plan**: Ensure that extended care events are factored into the plan to provide accuracy and evaluate how the allocated assets for care expenses will hold up against inflation and rising costs.

- **Care Preferences**: Understand the client's (and family's) plans for an extended medical event. What type of care is preferred, and how do they intend to pay for it?

- **Reframe Insurance Premium Costs**: LTCi premiums are not a standalone expense but rather a means of discounting the overall cost of care.

- **Understanding Care Duration:** According to U.S. Government reports, long term care services typically last 3-4 years, while cognitive issues may extend care needs to 7-10 years.

- **Tax Implications:** Even if your client can afford to set aside millions for care, it's important to consider the tax impact of keeping those funds in the estate if care isn't needed.

As their financial professional, you can reinforce your value and provide a very important service by having this conversation to help educate and expand your clients' perspectives on funding options for potential extended care needs.

Client Showcase: Unlocking Generational Wealth

A couple in their 80s, with a net worth of $14 million (including a $4 million concentrated stock position), sought ways to transfer wealth to their children and grandchildren.

Discovery and Solution: Their existing long term care insurance, an older reimbursement-based policy, had limited flexibility and rising premium costs. While they were protected, they regretted not focusing on more efficient extended care planning earlier, and their age precluded them from making changes now. Their financial professional saw an opportunity and brought in an insurance specialist to look at ways to help the couple maintain wealth and protect the next generation's long term care needs.

The insurance specialist presented innovative ideas to the couple that made it clear they had a chance to take care of their children's future extended care costs, eliminating the need for the children to earmark inheritance assets for this, and transferring more wealth to the grandchildren (third generation).

The couple sold $1,000,000 of their stock to make gifts of $300,000 to each child/spouse to provide $10,000 a month to cover their LTCi premiums. By using the internal rate of return on LTCi for 20 years, the couple ensured their stock, valued today at $190 per share, could be reallocated to their children, equivalent to a guaranteed price of $807 per share, income/estate tax-free and the estate was protected from pending redistribution taxes.

This proactive planning turned what could have been an overlooked issue into a legacy-building opportunity. The couple is proud to know that their children's long term care needs are covered, allowing their wealth to be preserved for future generations.

Bottom Line

Don't assume wealth alone will safeguard against future care needs. Extended care planning should be an essential aspect of wealth preservation for financial professionals. While ultra-high-net-worth clients may have the means to pay for care, the financial and tax consequences of using assets can be significant. A strategic approach—stress testing plans, reframing premium costs, and exploring innovative solutions—can help families protect their legacy and meet their potential long term care needs.

Start the conversation early to empower your clients with the knowledge to make informed decisions. Reach out to your Crump representative for more information on how to approach your ultra-high-net-worth clients about extended care planning and the unique product options available in today's LTCi market.

Contributors

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End Notes

[1] Cerulli Anticipates $84 Trillion in Wealth Transfers Through 2024

[2] Health Care Costs Today Affect Wealth Transfer Tomorrow

[3] Alzheimer's Disease Facts and Figures Report

Contact your Crump representative today to discuss more about extended care planning for ultra-high-net-worth families.

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 09.24 ALL-24-0700, Exp. 03.26 II-C