Linked Benefit Life

An Executive Summary

Background

Linked Benefit Plans are sophisticated tools for clients concerned about the costs of long-term care eroding the wealth they've worked a lifetime to earn. Historically clients have stored safe money using products such as Bank CDs and Money Market Accounts that offer modest rates of interest; understanding that preserving principal was the primary objective.

Clients utilize these products to get the safety and liquidity they desire; however neither provides any tax efficiency. Those who wish to keep a more permanent allocation of interest-baring money in their portfolio will often purchase fixed deferred annuities, products that will defer taxes and perhaps provide a higher interest rate.

Identifying the Money

The likely use for these funds in most instances would be to pay for long-term care. If not that, most of this money will pass to the heirs.

We call this money in their portfolio a "Legacy Asset".

Since life insurance has always been an excellent place to store savings for, safety, liquidity and tax benefits we designed a special life insurance policy to store this money. Then we attached additional benefits to it to address the unique needs of these clients.

Basic Concept (Life Insurance)

How it works….

- Clients deposit funds not needed for future income into a specially constructed life insurance policy and immediately secure guaranteed tax-free benefits triggered by death and/or long-term care.
    - Think of it as a savings account only with the insurance company, where the interest earned is used to purchase a term life insurance policy. Unlike money in the bank, when the interest is left in the policy and used to pay the premiums for the life insurance it is done so without incurring any income tax. When the client dies, the insurance company will pay to the beneficiary the cash value and the pure life insurance all income tax free. *But also, the company will pay these values early (before death) if needed to pay bills for long-term convalescent care.*
    - Depending on the product money can be deposited into the policy with a single premium or several annual premium deposits. The advantages of funding it with a single deposit include not only the guaranteed benefits but the right to withdraw 100% of their premium deposit* should they desire any time in the future.
      *This feature varies by carrier and product.
- The anxiety that clients might feel about shifting assets into one of these contracts disappears after learning the worst that can happen is a return of their initial deposit if, sometime in the future, they determine that they have a better use for it.
- Whatever the circumstances, clients may contact their advisor or the company and request a withdrawal or policy loan. There is generally no charge for this unless a wire-transfer or Fed Ex delivery is requested in which case there may be a small handling fee.

Unique Long-Term Care Benefits

An Accelerated Benefit rider is included which allows the company to prepay up to the entire death benefit to help reimburse the insured for qualified Long-Term Care expenses incurred prior to death. If more LTC coverage is desired an Extension of Benefits rider can add either two or four additional years of benefits. One carrier even has a lifetime benefit available.

For Example:

If a female client in her mid-60s (in average good health) were to transfer $100,000 into a Linked-Benefit policy instead of leaving it in a bank account or other safe depository, she might create an immediate estate (death) benefit of $150,000. When she qualifies for long-term care benefits by paying for care, either as a result of needing assistance with two or more Activities of Daily Living (ADLs) or because she has dementia or Alzheimer's, the insurance policy will begin distributing a portion of the total death benefit each month over a 24 or 36 month period of time to reimburse her for expenses incurred. In this example, she could receive as much as $6,250/month ($150,000÷24 months). If she dies before the entire death benefit has been paid out, her beneficiaries will receive the remainder of the $150,000.

If she uses the entire amount of the death benefit and continues to need care, most designs include an Extension of Benefits rider that will allow her to continue receiving the long-term care payments. In this example, as a result of making the original decision to move $100,000 from perhaps a CD into Linked Benefit Life, she could continue to receive benefits for up to four more years (a total of six years) for a total of $450,000.

This care can be any kind of convalescent care; in her home, assisted living facility or a nursing home…even for adult day care. A claim can be filed with the company, in most cases, as soon as she begins to receive care. Once approved, the company will begin reimbursing her for the monthly cost of her care up to the amount determined by the size of the policy as described above. In some contracts there would be a 90day wait to apply for benefits.

Annuity Based Alternative

There are certain situations when the life insurance-based product is not appropriate or desirable. If, for example, the deposit that is planned for is currently residing in an annuity with a large tax-deferred gain the client may not want to move it and pay the income tax. Also, when the client is in mid-70's to mid-80's a life based plan may not be workable. In these cases an annuity-based version is available.

This product is similar in that it is designed to take a lump sum and store it with the insurance company. The annuity offers an interest rate that is similar (or often greater) to a bank CD, but is sheltered from income tax until money is removed. When a long-term care event occurs, the owner can file a claim and (once approved) the insurance company will begin reimbursing the owner for monthly LTCi bills incurred up to the maximum monthly amount (typically 1/24th or 1/36th of the annuity value that has grown since the money was first deposited. Most have an extension rider similar to those on the life insurance versions that will pay a total of double or triple the amount in the annuity. For example: a $100,000 annuity balance will turn into a $200,000 or a $300,000 long-term care benefit, if needed. Any portion of the $100,000 annuity cash value that is not spent on long-term care will ultimately pass to the beneficiary.

The big difference between the annuity version and the life insurance version is that when the death benefit (or any part) of the life insurance policy is passed to the heirs it goes income-tax free. Any part of the annuity will contain some tax-deferred income that will be taxed.

Chronic Care Riders

Recently a new modification of these riders has been introduced in the life insurance industry. Called Chronic Care riders, they offer an opportunity for a person insured with one of these life insurance policies to "tap" the death benefit if/when they need long-term care. The requirements for making a claim are basically the same as in a Linked-benefit product only the conditions must be deemed permanent, the available benefit may not necessarily be equal to the total death benefit and there are never any extension of benefit riders available to leverage the total as in the linked-benefit product.

These products serve to improve the features and benefits of a life insurance program by offering more opportunities to make a claim when a serious financial crisis occurs. But they are not true long-term care products for tax purposes or for claims purposes; and they are not the best choice when acquiring a long-term care strategy is one's intent.

What an Advisor Might Say to the Client:

"Mrs. Client, since we agree that it is very unlikely that you would use this money in your bank account, CD, etc., I suggest you consider moving it into a Linked-benefit account with a life insurance company. Not only will your principal never be exposed to market risk but you gain tremendous leverage from the benefit multiplier. Incidentally, I've calculated that it would take more than eighteen years to accumulate the same legacy for your heirs leaving that money where it is. More important, I think you would agree that long-term convalescent care is the most likely scenario you'll ever face in which you would spend the bulk of that money yourself; and this will allow you to access even more than we've earmarked for your beneficiary if you need it yourself for these costs.

Bottom line, it means more money for you if you ever have massive LTC costs, or more left for the children if you don't. And all the while, you will continue to control your funds and have access to them for any other need that may arise.

Most Typical Questions

Q. That seems almost too good to be true. What's the catch? (The #1 most asked)

A. The only "catch" is that this is a life insurance policy specifically designed to hold this money and provide these benefits. Therefore, you must enjoy average good health in order to qualify to acquire a contract.

Q. I have never heard of this before. It must be something very new.

A. Actually this concept and many of the products have been available for over 25 years.

Q. I don't understand. How do they provide that much money to me or my heirs?

A. These are Life Insurance policies, specially designed to accept large single deposits (or "premiums," as they are referred to by the insurance company). When you pay the money into the policy, it creates a death benefit that is considerably greater than the money you put in. This is paid to your heirs when you die, just the same as any other life insurance policy. Unlike other policies however, this one can distribute the same benefit to you if you ever need to pay for long-term convalescent care.

Q. You say my principal is guaranteed. You mean like FDIC?

A. No. FDIC is insurance sponsored by the federal government to secure bank balances. *These* policies are backed by the Life Insurance Company, and regulated by state insurance commissions.

The carriers that we represent for these products are all A-rated, or better, by A.M.BEST insurance rating services.

Q. How do I get money back if I need it?

A. You can call your advisor who will assist you with a request for a withdrawal. Or you can call the company direct and they will assist you with your request.

Q. If I do need long-term care, do they pay me my benefits in one lump sum?

A. No. They reimburse you for your expenses in monthly installments over at least two years, up to 1/24th of the specified amount of death benefit each month. If your monthly LTC bills are less than 1/24th of the specified amount of death benefit, they will pay that amount instead; in which case the payments would actually last longer than 24 months. Any money not paid to you before you die is paid to your heirs at your death.

Q. Do they pay for all types of long-term care?

A. Yes, Nursing Home, Home Care, Assisted Living and Adult day Care.

Q. How about income taxes?

A. The LTC benefit is tax-free and so is the death benefit, as long as the beneficiary is a person. Any accumulated interest on the money in the cash value is tax-deferred unless withdrawn for some reason other than death or LTC. Then it is taxed, *last-in-first out*. Also if the cash value is in an annuity version, some of the proceeds withdrawn for other than long-term care expenses maybe taxable.

Q. I imagine the application process is lengthy and time consuming?

A. Not all that bad. In some cases it requires a personal phone call by a company home office representative to take the applicant through the application. Then underwriting can begin that will typically not take too much time.

Q. Will an exam be requested by the carrier?

A. Not usually. But if the applicant wants to qualify for *Preferred* rates an exam may be necessary. This is usually accomplished by a Para-med in the comfort of the applicant's home. Otherwise, in many cases the entire underwriting process from application to offer has been streamlined to take as little as 2 weeks.

Conclusion

Many individuals over the age of 55 or 60 are candidates for Linked Benefit Life. Those who have Legacy Assets sitting idle in a savings type account and sufficient other resources for their income needs will find one of these products is the perfect place to store those savings and get the most value for them at the time they need to be utilized, either by their heirs eventually or, in the case of long-term care expenses, by the client themselves. This strategy to deal with Long-Term Care has very few "moving parts", so the concept is easy for everyone to understand. Once one understands that the cash value account in the insurance policy is essentially the same as a bank account or an annuity, only with potentially a much bigger check when it is most likely to be paid out, it is highly likely that they will want to add it to their portfolio.

Call us today at **800.238.8144** for answers to your questions and to request a custom designed illustration.