

**USING INSURANCE
EFFECTIVELY IN LONG
TERM CARE PLANNING**

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BUY FUNERAL & BURIAL

- Medicaid & Life Insurance: 55 Pa. Code 178.69, 178.70
- DPW Long Term Care Handbook, Chapter 440 Resources: Coming “Soon” to a CAO Near You

BUY FUNERAL & BURIAL (CONT)

- Term Insurance Exempt
- Policies With No Cash Value Exempt
- \$1,500 Or Less Combined Face Amount of ALL Policies = Exempt

BUY FUNERAL & BURIAL (CONT)

- \$1,000 Exclusion From COMBINED CASH SURRENDER VALUE
- IN PA: Spend Down Excess Resources For Funeral And Get RETROACTIVE Eligibility

OPTIMIZE \$1,500 EXCLUSION

- Gift or Liquidate Policies with Face Amounts Higher than \$1,500
- Keep Smaller Policies Up to Combined Face Amounts of \$1,500

**OPTIMIZE \$1,500 EXCLUSION
(CONT)**

- VERIFY Beneficiary And Other Information – Sample Written Request (Schedule “B”)
- Change Beneficiary And Make Other Appropriate Changes

TRANSFER LIFE INSURANCE TO
IRREVOCABLE GRANTOR
TRUST

- “Grantor” Trusts – Corpus Owned By Settlor For Federal Income Tax Purposes
- Life Insurance Proceeds NOT Taxable Income To Beneficiary

TRANSFER LIFE INSURANCE
POLICY TO IRREVOCABLE
GRANTOR TRUST (CONT)

- Gift of Life Insurance Policy To Grantor Trust Not A Taxable Event
- Leveraged Gifting – Universal Life Policies

EXCERSISE ACCELERATED DEATH
BENEFIT ELECTION

- New Feature In Some Policies
- Pre-Death Access To Benefits If:
Chronically Ill; or
Terminally Ill

EXERCISE ACCELERATED DEATH
BENEFIT ELECTION (CONT)

- Yields More Cash Than Alternatives
- Proceeds Not Income Up To:
 - Cost of Care;
 - \$290 Per Diem Max (2010)

SELL LIFE INSURANCE POLICY –
VIATICAL SETTLEMENT

- Sale to 3d-Party Factor
- Similar to ADB:
 - Chronically Or Terminally Ill
 - Proceeds Not Income

SELL LIFE INSURANCE POLICY –
LIFE SETTLEMENT

- Pre-Death Access Without Chronic Or Terminal Illness
- Alternative To Allowing Policy to Lapse
- All Or Part of Gain Is Ordinary Income

**ROLLOVER VIA 1035
EXCHANGE TO LTCI**

- **New Planning Opportunity – IRC 1035(a)(3):**
No Gain Or Loss Recognized On The Exchange Of “An Annuity Contract For A Qualified Long-Term Care Insurance Contract”

**ROLLOVER VIA 1035
EXCHANGE TO LTCI (CONT)**

- **Less Stringent Underwriting Standards:**
Obtain LTCI Not Accessible As a Stand-Alone Policy
- **Tax – Free Exchange To “Qualified” LTCI Policy – IRC 7702B (Schedule “E”)**

**ROLLOVER VIA 1035 EXCHANGE
TO LTCI (CONT)**

- **HYBRID – Annuity With LTCI Feature**
- **No Surrender Charges**
- **CAVEAT: Many Insurers Have Yet to Offer This Product**

FUND IRREVOCABLE GRANTOR TRUST AND BUY LTCI

- Pre – Crisis Planning For Healthy Client
- Fund Trust With Real Estate Or Highly Appreciated Assets

ASSIGN LTCI TO COMMUNITY SPOUSE

- Swift Medicaid Approval For An IS With LTCI Yields A Windfall To DPW
- LTCI Payments To Assignee-CS Will Usually Exceed A CS Income Allowance
- Assigning LTCI To CS Converts IS Insurance To CS Income

BUY LONG TERM CARE INSURANCE ON PARENT

- LTCI Gives DPW A Windfall When Client Qualifies For Medicaid With Most Of The LTCI Not Paid Out
- Beneficiaries Have Lawfull Economic “Insurable Interest” In Estate Of Testator
- Buy “Indemnity” Policy
