Executive Carve-Out Long Term Care Insurance

An Executive Carve Out plan can be used when a business decides to reward a specific group of executives by purchasing for each member in the group, a long-term care insurance policy. The executive or key employees are usually those who are key to the success of the business. By using an accelerated pay option such as a “ten pay,” the business can project the cost of this special benefit and determine when the premium payments will stop. When the executive retires the business can present him or her with a paid up long-term care insurance policy.

Whether the policy is limited pay or a continuous pay long-term care insurance policy, there are many advantages to this plan:

• The Executive is the owner of the policy and it is portable

• The business can deduct the cost of the premiums using pretax dollars, just like health insurance

• The total premium paid by the business is not included in the executive’s taxable income (unless the executive has an ownership interest in a pass-through business entity like a partnership, S corporation, LLC, etc.)

• Benefits under a tax-qualified long-term care insurance policy are paid to the executive tax free.

Because LTC insurance does not fall under ERISA rules for workplace discrimination, you may “carve out” this benefit to selected employees.

*Using today’s rates, let’s look at an example of a 50 year old couple in fair health (standard rate class), living in the state of SC and purchasing a **John Hancock Leading Edge** long-term care insurance plan design:

- 5-years of private care benefits each
- A monthly benefit amount of $6,000 each (The average cost of private care in the state of SC)
- 100 day elimination period
- Automatic inflation protection with guaranteed increase option
- Zero day elimination period for home care
- Policy provides coverage for all known forms of long-term care
- Couple’s discount
- Sponsored group discount

The initial combined total premium is $12,465 annually, payable for only 10-years. The day the first premium is paid, the couple immediately has approximately $720,000 of combined tax-free long-term care insurance coverage. In 15-years, assuming CPI of 5%, their combined tax-free long-term care benefits are projected to be just shy of $1.5 million. In 30 years, assuming CPI of 5%, their combined tax-free long-term care benefits are projected to exceed $3.1 million.

To achieve this same leveraging by investing, rather than purchasing long-term care insurance, would require a before tax rate of return of approximately 18%, over the same 30-year period.

* Reflects the current premium rates for a John Hancock Leading Edge plan in South Carolina

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