



The new wealth transfer

MAKING ROOM FOR LONG-TERM CARE INSURANCE IN THE ESTATE PLANS OF THE WEALTHY

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If we were to play a game of word association, if we said the phrase “wealth transfer” or “estate planning,” the financial product that would first come to mind is life insurance. However, given multiple developments in health and wealth over the past thirty plus years, we – financial professionals – know that having life insurance as part of a wealth transfer plan doesn’t cut it anymore.

An effective wealth transfer or estate plan also needs to include a long-term care component. The likelihood of a significant portion of one’s wealth being eroded in the final years of his or her life due to the costs of long-term care is a major threat to wealth transfer or estate plans. That’s what we mean when we say the *new* wealth transfer – making room for long-term care planning when we create wealth transfer or estate plans.

The type of long-term care plan implemented may largely be dictated by the level of a client’s wealth - and the particular plan that works for your client will likely be as unique as your client is - but when we examine where the money comes from to support a long-term care plan, the answer is either Medicaid, insurance, or out of pocket. The majority of our clients will not qualify for Medicaid and will have to rely on their own personal resources to fund these expenses – resources which hopefully include some form of long-term care insurance (LTCi). This white paper will focus on two specific client segments: The mass affluent (defined as clients without federal estate tax exposure) who typically have a net worth between \$100,000 - \$5,000,000 (double that amount for married couples), and the high net worth (defined as clients with federal estate tax exposure).

THE COSTS OF CARE

This table lists the average cost of care of various long-term care services in Columbus, Ohio (2024). A private room at a nursing home is the most expensive option with an average cost of \$105,060 per year. Whereas the average cost of a year in an assisted living facility is \$67,566 and having a home health aid for a year, on average, will cost about \$63,551 (assuming a 40-hour work week). This table also shows the cumulative cost of those services after 5 years. What will the costs of these services be in 10, 20 or 30 years when our clients are likely to need them? Based on historical inflation rates, the cost of coverage for these services in 20 years – and their cumulative cost over 5 years – is also shown.

Average Cost of Care Columbus, OH ¹				
	Annual 2024	5 years	Annual 2045 ²	5 years
Private Room Nursing Home	\$105,060 / year	\$525,300	\$209,047	\$1,045,235
Assisted Living Facility	\$67,566 / year	\$337,830	\$122,032	\$610,160
Home Health Aid	\$63,551 / year	\$317,755	\$94,433	\$472,165

THE BENEFITS OF HAVING LTCI COVERAGE FOR OUR MASS AFFLUENT CLIENTS

Traditional wealth transfer planning for our mass affluent clients has often centered around the estate tax. And the recommendation was typically a life insurance policy owned by an irrevocable trust. However, today, it is estimated that individuals reaching age 65 will have a 52% chance of needing long-term care at some point in their life.³ At the same time, due to the dramatic increase in the federal estate tax exemption, less than 1% of the population can expect a federal estate tax at their death.⁴ For the overwhelming majority of Americans, wealth transfer needs to focus on planning for the costs of long-term care - not on estate taxes. ***The costs of long-term care have become the new estate tax for the mass affluent.***

What do I mean by that? I mean that the largest threat to the wealth transfer plans of our mass affluent clients are not estate taxes, they are long-term care costs. Even if your mass affluent clients are not exposed the federal estate tax, their estates will likely still be diminished – perhaps significantly so – by the costs of long-term care. Instead of 40% of an estate above an exemption going to the IRS, same or similar amounts will be going to the LTC. And you have to think that if we were encouraging our clients to insure for an estate tax liability of hundreds of thousands or millions of dollars, why wouldn't we also encourage our mass affluent clients to insure for a potential long-term care event of same or similar amounts?

And so, it should be clear that with our mass affluent clients, their wealth transfer plans will not be complete unless they include some kind of protection against a future long-term care event. We can help our mass affluent clients experience success with the new wealth transfer.

MASS AFFLUENT CLIENTS WITH IRREVOCABLE LIFE INSURANCE TRUSTS (ILITS)

Mass affluent clients who do not face likely exposure to the federal estate tax under current law can safely own LTCi products personally.⁵ And for those who are open to doing so, that is the most direct and efficient form of ownership. However, there may be a segment of mass affluent clients that currently own life insurance policies in irrevocable trusts and are either (1) not keen on purchasing more insurance, or (2) suffer from “ILIT remorse” (i.e., actually want to get rid of their ILITs due to the remote possibility of an estate tax).

For these two groups of mass affluent clients, they've already done some excellent wealth transfer planning. But we can make it better and more effective if we help them add a long-term care component to their wealth transfer plans. In other words, if we help them **repurpose their ILITs for LTC**.

Irrevocable trusts have several beneficial features besides estate tax mitigation. Any assets transferred to an irrevocable trust are protected from the grantor's creditors (and oftentimes, the beneficiary's creditors). In addition, those assets will avoid probate at the grantor's death which will be a private transfer of wealth (vs. a will, which is a public document). The ILIT can be named as the owner or beneficiary of any number of assets. If assets remain in trust after the grantor's death, the irrevocable trust can provide further creditor protection and possibly professional money management for trust beneficiaries. It would generally not be advisable to “get rid” of the trust.

Nor would it be a good financial decision to get rid of the policy. The worst that can happen by keeping the ILIT intact is that the grantor has given his/her loved ones a larger inheritance. Whereas the worst that can happen by terminating an ILIT is that the estate tax laws change, and the grantor ultimately does end up facing an estate tax at death, forcing a fire sale of assets, disparate inheritances, and greatly diminishing the grantor's legacy.

REPURPOSING AN ILIT FOR LTC⁶

The first step in repurposing an ILIT for LTC is for the trustee to determine what kind of LTCi coverage is most appropriate. The two most fitting options for LTCi coverage that complement an estate plan are either a life insurance policy with long-term care rider or a linked-benefit long-term care policy. A standalone long-term care policy is not ideal for wealth transfer due to its “use it or lose it” nature.

If a **life insurance policy with long-term care rider** is selected, the trustee may be able to have the rider added to the pre-existing policy inside the ILIT. A few carriers, including Nationwide, do allow the long-term care rider to be added post-issue.⁷ The insured will have to be insurable for long-term care at the time the rider is issued. If a rider cannot be added post-issue or if a different life insurance product is more appropriate, the trustee can complete a tax free 1035 exchange for a new life insurance policy with long-term care rider. Note that the insured will have to be insurable for both life insurance and LTCi in this instance. This is a great option if preserving maximum death benefits is the goal.

Alternatively, the trustee may determine that a **linked-benefit long-term care policy** is more desirable. These types of policies typically offer greater long-term care benefits (and less death benefits) than a life insurance policy with long-term care rider. The trustee could 1035 exchange the pre-existing life insurance policy in the ILIT for a linked-benefit LTCi policy. The insured will need to be insurable for both life insurance and long-term care in order to complete the 1035 exchange. This is a great option if maximizing LTCi benefits is the goal.

No matter the type of LTCi product that is right for your client, Nationwide's suite of **cash indemnity LTCi products** are available as a solution. Particularly with ILITs, you are apt to find “old” survivorship life insurance policies. As long as both insureds are alive, a 1035 exchange to Nationwide's Survivorship IUL or Survivorship VUL is possible. And LTCi riders covering each insured can be added to any Nationwide survivorship product!⁸ Alternatively, it is also possible to 1035 a survivorship life insurance policy to a Nationwide's CareMatters Together product, a first of its kind, linked benefit LTCi product insuring two lives. A long-term care rider can be added on a 1035 exchange to any of Nationwide's single life, permanent products as well.

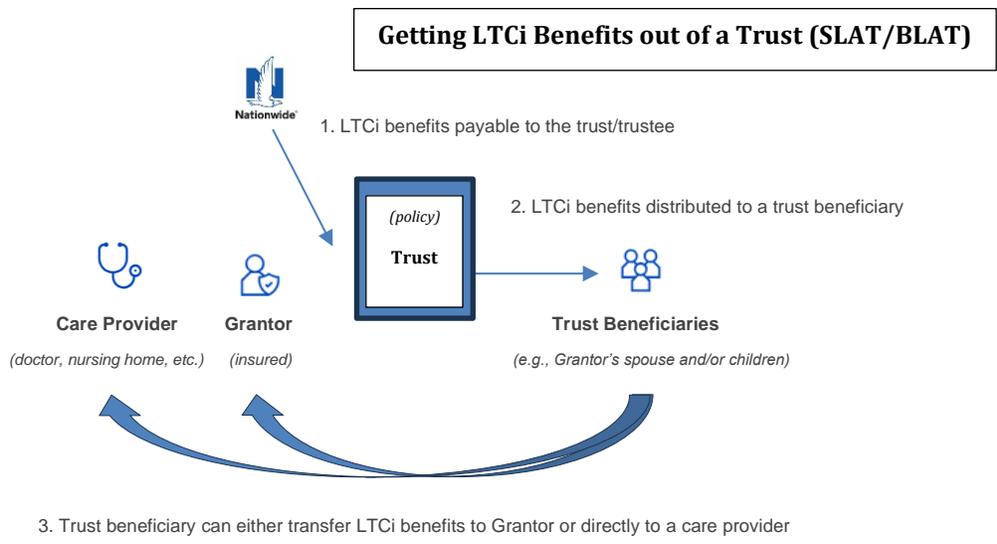
REPURPOSING AN ILIT FOR LTC: SLAT OR BLAT PROVISIONS ARE KEY FOR MASS AFFLUENT CLIENTS

Nationwide will pay cash indemnity LTCi benefits to the policy owner. In the case of an ILIT, LTCi benefits would be paid to the trustee. In a typical ILIT, the grantor (creator) of the trust is also the insured of the policy; this person is neither a trustee nor a trust beneficiary. Therefore, the trustee may not be able to distribute LTCi benefits directly to the person experiencing a LTC event.

However, if the trust was drafted with **SLAT provisions (spousal lifetime access trust)** or even **BLAT provisions (beneficiary lifetime access trust)** and has a discretionary distribution standard, the trustee can make distributions of the LTCi benefits to a trust beneficiary – typically the insured's spouse or child, who may then share those benefits with the insured. If the grantor's spouse or child is included **as a discretionary trust beneficiary**,⁹ then it is within the discretion of the trustee to make

a distribution to such person for any purpose; the insured's spouse or child would then be able to use the distribution of LTCi benefits for any purpose whatsoever, including to help offset any long-term care expenses of the insured.

If the trust does not have SLAT or BLAT provisions and a discretionary distribution standard, there are some other options. The grantor could exercise a swap power, swapping the policy out of the ILIT in exchange for a (high basis) asset of equivalent value. Or consider that many states allow irrevocable trusts to be amended without necessitating a court process (e.g., non-judicial settlement agreements). Finally, virtually all trustees are empowered to make loans, so a loan of LTCi benefits will almost always be a possibility.



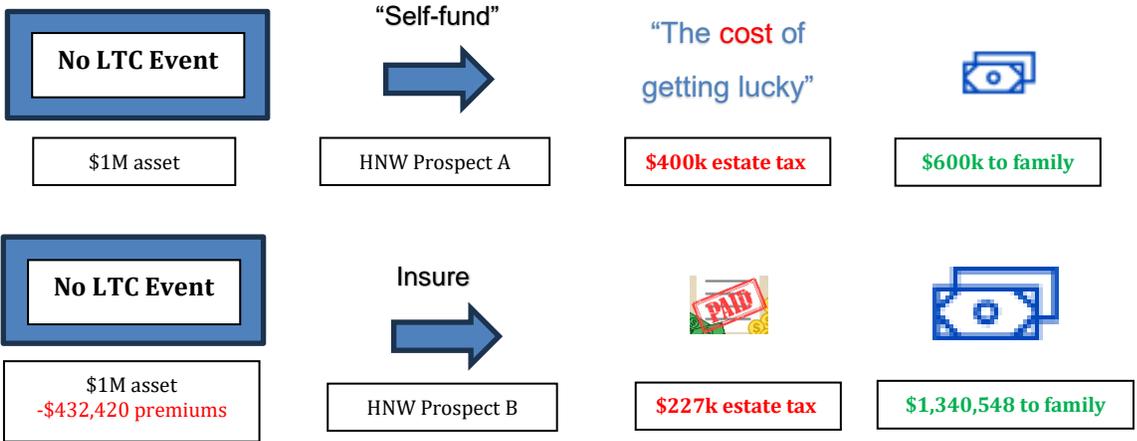
ADDING LTCI COVERAGE TO AN ILIT & “THE COST OF GETTING LUCKY” FOR THE HIGH NET WORTH

Repurposing an ILIT for long-term care makes a ton of sense for mass affluent families who otherwise could see their estates significantly diminished by the costs of long-term care. But adding LTCi coverage to an ILIT may make even more “dollars and cents” for **our high net worth clients who are exposed to the federal estate tax**. Let’s switch gears and talk about why it is often advantageous for our high net worth clients to own life insurance based LTCi products in irrevocable trusts – even if they don’t have a LTC event!

The high net worth are likely not clamoring to get rid of their ILITs as they appreciate the likelihood of their federal estate tax exposure. However, they are also not likely to be quick to pay premiums for a LTCi product when they can just “pay for it myself.” What the high net worth do not appreciate is that there is **an embedded cost** to their plan to self-fund future LTC expenses – if they don’t end up needing care, they will still owe the IRS 40% of that unspent money in the form of estate taxes – it’s what we at Nationwide call **“the cost of getting lucky.”**

Imagine a hypothetical high net worth prospect exposed to federal estate taxes. Even if they do not experience a LTC event, they will likely still come out ahead, financially, by being prepared for one. Why? The cost of getting lucky. Assume HNW Prospect A, 55-years-old, sets aside \$1M in a savings account and will “self-fund” the costs of LTC. HNW Prospect B, also 55-years-old, sets aside \$1M in a savings account and uses some of those funds to purchase a \$1M life insurance policy with LTC rider in her ILIT that will provide \$1M of LTCi benefits.¹⁰ Assume the prospects pass at age 95. **How far will the initial \$1M go?**

The self-funder, HNW Prospect A, ends up paying more estate taxes (+ \$173k) and passing on less wealth to their family (- \$741k) than HNW Prospect B. The 40% federal estate tax packs quite a punch! This cost is often overlooked in planning for the high net worth. In the diagram below, the original one-million-dollar asset generates \$400,000 of estate taxes for HNW Prospect A, who ends up passing on only \$600,000 to her heirs.



Whereas, although HNW Prospect B paid \$432,420 in insurance premiums, she reduced her estate tax liability to \$227,032 and passed on over \$1.34M of assets to her family: The \$1M death benefit payable to the trust as well as \$340,548 of savings for her estate beneficiaries.

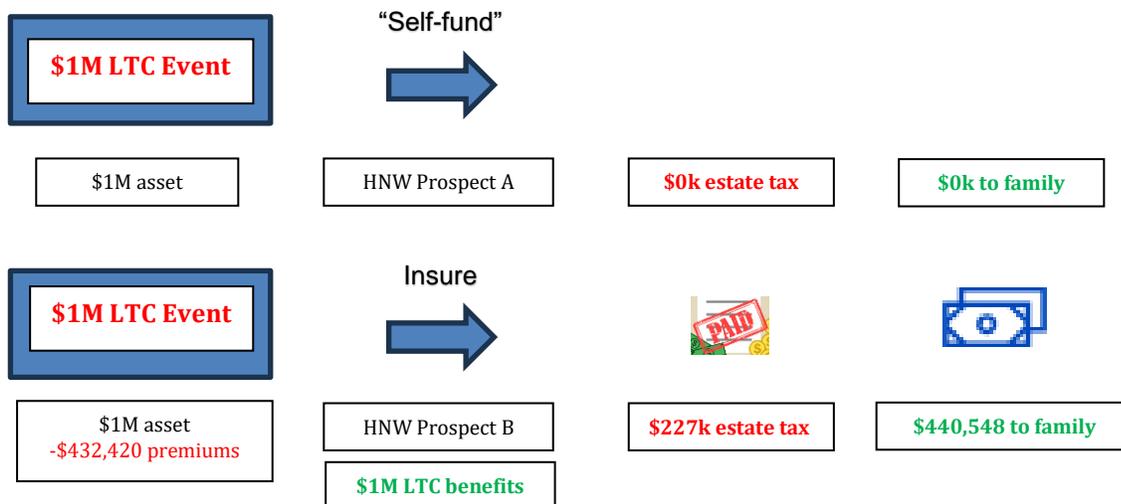
We can't control whether our clients experience a LTC event, but we can control whether they are prepared for one and must disabuse our high net worth prospects that doing nothing when it comes to planning for future long-term care costs (i.e., "self-funding") is a winning financial proposition. Being prepared literally pays off.

ADDING LTCI COVERAGE TO AN ILIT: SLAT OR BLAT PROVISIONS & HIGH NET WORTH CLIENTS

If our high-net worth prospects do experience a long-term care event, it seems obvious that those who have insurance will experience better financial outcomes than those who have to pay those costs out of pocket. Continuing with our example, if both HNW Prospects A and B experience a LTC event, ultimately costing them \$1M, HNW Prospect A would pay that cost, dollar for dollar, whereas HNW Prospect B received a 56% discount (i.e., only paid \$432,420 in insurance premiums)!

Because the LTCi product will likely be owned in an irrevocable trust, we still have to deal with the issue of how to provide the insured indirect access to the LTCi benefits. The requisite SLAT or BLAT provisions in the trust can be used to allow the LTCi benefits to be shared with the insured. If the insured does experience a LTC event, let's look more closely at the financial outcomes. Assume that the LTC event/claim begins at age 90 and they pass at age 95 and that the total cost of the LTC event is roughly one million dollars.¹¹ **How far will the initial \$1M go?**

Although, HNW Prospect B, ends up paying **more estate taxes (+ \$227k)** she passes on **more wealth to her family (+\$441k)** than HNW Prospect A. HNW Prospect A fully depletes the fund she set aside for future LTC costs; although she does not end up owing estate tax on this money, nothing is leftover for her family's benefit. Although HNW Prospect B owes \$227k of estate taxes, she is able to leave the heirs of her estate \$340,548¹² and leave an additional \$100k to the trust beneficiaries, for a total financial benefit to her family of more than \$440k! (Nationwide will pay a residual death benefit of 10% of the specified amount if all LTCi benefits are exhausted.)



Either way you slice it, LTC claim or not, purchasing a LTCi product is a financial win for the high net worth.

However, this is not the end of the story. It is possible to improve upon the financial outcomes of the high net worth if they do insure for a long-term care event and end up having one. We can help our high net worth clients pay even *less* estate taxes and transfer *more* wealth to their family. How? **If we combine LTCi benefits with loans, we can create a debt against the insured's estate which lowers the value of their gross estate and the estate taxes ultimately payable** and makes the net financial results even better than by using SLATs/BLATs.

By using this strategy, we have actually turned planning for long-term care into an additional estate tax mitigation tool.¹³

ADDING LTCI COVERAGE TO AN ILIT: ADDITIONAL ESTATE TAX MITIGATION FOR THE HIGH NET WORTH

Loans from irrevocable trusts are nothing new. In fact, the power in many irrevocable trust documents that authorizes the grantor to borrow from the trust without adequate interest or without adequate security is one of the "unicorn" provisions of the Internal Revenue Code that creates grantor trust status, meaning the grantor remains responsible for the trust's income tax liabilities, but the trust's assets and income are shielded from estate tax liability.¹⁴

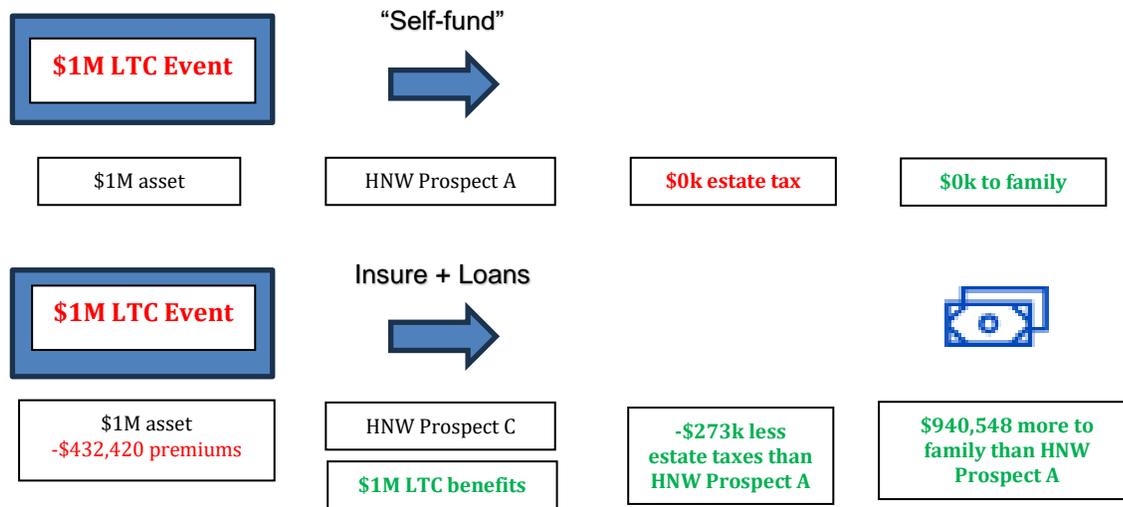
A trustee is typically authorized in a trust document to make a variety of loans. However, even if such authority is not specifically enumerated in the trust, a trustee is most likely still authorized to make loans as such administrative powers are as old as the common law itself. Trustees are able to make loans to an almost limitless list of individuals and entities but more commonly may make loans to trust beneficiaries or the trust's grantor.

We ultimately want the loan to be respected as a **bona fide debt**. That means at a minimum there should be a written loan agreement and a reasonable, market rate of interest charged. Collateral may also be pledged, and a pledge agreement drawn

up. Depending on the goals and financial circumstances existing at the time, various loan structures can be considered, including demand loans, term loans, or lines of credit, with the goal of maximizing the debt and thus the estate tax savings. For example, the loan can be designed to accrue interest and capitalize monthly which will have the effect of increasing the size of the debt; alternatively, an interest only note with a balloon payment will have the effect of transferring additional monies gift tax free during the grantor's life (and income tax free if interest payments are made to a grantor trust).

If repayment of the loan is made during the grantor's lifetime, consider using either a high basis asset and/or an asset with excellent appreciation potential - to the extent the grantor survives after the loan is repaid, and the asset appreciates, additional wealth is shifted gift and estate tax free! If repayment is made after the grantor's death, any outstanding loan interest (not capitalized) will likely be taxable income to the now non-grantor trust.

Let's look at the results for HNW Prospect C who insured for a long-term care event and assume that she was able to access the LTCi benefits through loans and when she passed away at age 95 there is an additional debt in her estate of roughly \$1.25M.¹⁵ This reflects the \$1M of LTCi benefits in addition to the capitalized interest during her life.¹⁶



The \$1.25M debt in HNW Prospect C's estate ends up **saving her \$500,000 in estate taxes¹⁷** and allows her to pass on **significantly more wealth (almost + \$1M more)** than HNW Prospect A.¹⁸ This iteration provides the most financial benefit to the insured as well as her family and also minimizes estate taxes payable.

The executor of HNW Prospect B's estate can repay the loan using any \$1.25M asset included in HNW Prospect B's estate. Outside of "IRD assets," this asset will have received an adjusted basis at HNW Prospect B's death, which will provide future income tax savings to the recipients, further compounding the tax efficiencies of this arrangement. (Basically, that asset can be transferred estate tax free **and** received an adjusted basis!)

CONCLUSION

The new wealth transfer needs to include protection against the potential future costs of long-term care, which, regardless of your level of wealth, can be significant.

For the mass affluent, the costs of long-term care can effectively derail a wealth transfer plan, exhausting one's life savings in a matter of a couple of years. To be able to leave a financial legacy, to leave your heirs an inheritance, LTC planning has become an essential part of the estate planning conversation. For those certain mass affluent individuals with ILITs that are no longer suited to their original purpose, they can become dynamic wealth transfer tools once again if they are repurposed to provide funding for future long-term care costs.

For the high net worth with more certain exposure to the federal estate tax, the "cost of getting lucky" makes self-funding a future long-term care event the least attractive option from a financial standpoint. Merely adding LTCi coverage to their irrevocable trusts is enough to improve their wealth transfer outcomes – whether or not they even experience a long-term care event. Even more, for the high net worth, trust planning with life insurance based LTCi products can be an additional estate tax mitigation strategy – additional estate tax exemption! - keeping more wealth within their family and less wealth from going to the I.R.S.

Regarding the details of how to add LTCi coverage to an ILIT, there are, as previously discussed, legitimate alternatives with the appropriate choice depending upon the facts and circumstances of the case and the interests of the parties involved.



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.

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¹ Nationwide, Compare Long-Term Care Costs from State to State map, <https://nationwidefinancialltdmap.hvsfinancial.com>, accessed February 3, 2025.

² Id. The inflation rates assumed are based on publicly available cost of care surveys from 2016 to 2018. The actual future costs of care will be different from the historical cost of care.

³ "70% - It's Baaack! Kind of..." Bill Comfort - CSA, CLTC, LTCCP, Published on December 13, 2020. <https://www.linkedin.com/pulse/70-its-baaack-kind-bill-comfort-csa-cltc-/>. In addition, when it comes to the risk of needing care, according to Health View Services, an average healthy 65-year-old *married couple* has a 75% chance that one partner will require LTC. Think Advisor: "What Are the Odds Your Client Will Need Long-Term Care?" by Michael S. Fischer, June 22, 2021. <https://www.thinkadvisor.com/2021/06/22/what-are-the-odds-your-client-will-need-long-term-care/>.

⁴ According to a 2015 study. Joint Committee on Taxation, "History, Present Law, and Analysis of the Federal Wealth Transfer Tax System," 9 July 2018, <https://www.jct.gov/publications.html?func=startdown&id=4744>.

⁵ State estate tax considerations may also play a role in whether personal ownership is preferred.

⁶ There is no prohibition on owning life insurance based LTCi products in irrevocable trusts at Nationwide. All Nationwide life insurance based LTCi products pay cash indemnity style LTCi benefits to the policy owner (with a trust owned policy, this would be the trustee). These product features can facilitate trust ownership.

⁷ Currently the maximum amount of long-term care benefits available with the Nationwide LTC rider is \$2M (2025). Greater LTCi benefits are possible with our CareMatters suite of products.

⁸ Up to \$2M of LTCi benefits for each insured. Each insured must have equal amounts of LTCi benefits with our survivorship products.

⁹ Otherwise, a so-called ascertainable standard (e.g., HEMS) may not provide relief as the distribution event is not necessarily on account of a trust beneficiary's health, education, maintenance, or support.

¹⁰ Further assume this person is a 55-year-old female in okay health (Standard NT/NT). The policy is a Nationwide VUL Protector II with LTC rider, \$1M face amount, \$1M LTC benefit, \$21,621 annual premium payable for 20 years; 6.5% gross return, A120 guarantee. Growth of the savings account has been ignored for simplicity – growth does not change the relational outcomes. Outcome assumes annual premium covered by gift tax annual exclusions (\$19,000 per donee in 2025).

¹¹ Nationwide's LTC Cost Calculator projects the future costs of LTC services by applying historical inflation rates, however, only projects out until 2055 (i.e. 30 years). Nevertheless, using 2055 rates, the projected annual cost for a private nursing home room in Columbus, Ohio is approximately \$295,000/year (almost \$25,000/month). We will assume the maximum monthly benefit in the policy, \$20,000, is at or under the HIPAA per diem; alternatively, we will assume it is the monthly cost of a private nursing home. Benefits are payable for 50 months. See note 10 for product specifications.

¹² The initial \$1M asset minus life insurance premiums of \$432,420 = \$567,580 included in gross estate x 40% = \$227,032 estate taxes payable. Remaining for estate heirs \$340,548 + \$100,000 of residual death benefit payable to trust beneficiaries = \$440,548 net financial benefit to HNW Prospect B's family.

¹³ Using loans is also an alternative for any trusts not drafted with the requisite SLAT or BLAT provisions.

¹⁴ See IRC section 675(2).

¹⁵ Same parameters as HNW Prospect B, except the manner of access to the LTCi benefits.

¹⁶ Assume 8% loan interest rate, capitalized monthly.

¹⁷ Although HNW Prospect C saves \$500k of estate taxes due to the \$1.25M debt in her estate, compared to HNW Prospect A, she pays \$272,896 less estate taxes because she was originally subject to \$227,104 of estate taxes on the \$567,760 remaining in her estate. HNW Prospect A was not subject to this amount.

¹⁸ Same math as in endnote 12. Additional \$500,000 financial benefit ultimately inures to the trust beneficiaries = \$940,548 financial benefit to family (\$340,656 for estate heirs and \$600,000 to trust beneficiaries (\$500k estate tax savings + \$100k residual death benefit) vs. HNW Prospect A.