

# 2025 ADVANCED SALES FORUM

*Explore, Inquire, Innovate*

## Exploring LTC: Protecting Wealthy Clients and Business Owners

FOR FINANCIAL OR INSURANCE PROFESSIONAL USE — NOT FOR DISTRIBUTION TO THE PUBLIC





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Nationwide

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# Important things you should know

When evaluating the purchase of a variable annuity, your clients should be aware that variable annuities are long-term investment vehicles designed for retirement purposes and will fluctuate in value; annuities have limitations; and investing involves market risk, including possible loss of principal.

This information assumes that the life insurance is not a modified endowment contract, or MEC. As long as the contract meets the non-MEC definitions of IRC Section 7702A, most distributions are taxed on a first-in/first-out basis. Surrender charges may apply to partial surrenders. Loans and partial surrenders from a MEC will generally be taxable, and if taken prior to age 59 ½, may be subject to a 10% tax penalty. Loans and partial surrenders will reduce the cash value and the death benefits payable to your beneficiaries, and withdrawals above the available free amount will incur surrender charges. If your contract were to lapse with a loan outstanding, the loan amount in excess of basis will be treated as a distribution and all or a portion will be subject to income tax.

The underlying investment options to a variable annuity or life insurance product are not publicly traded mutual funds and are not available directly for purchase by the general public. They are only available through variable annuity/variable life insurance policies issued by life insurance companies.

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# Important things you should know

As your clients' personal situations change (i.e., marriage, birth of a child or job promotion), so will their life insurance needs. Care should be taken to ensure these strategies and products are suitable for long-term life insurance needs. You should weigh your clients' objectives, time horizon and risk tolerance as well as any associated costs before investing. Also, be aware that market volatility can lead to the possibility of the need for additional premium in the policy. Variable life insurance has fees and charges associated with it that include costs of insurance that vary with such characteristics of the insured as gender, health and age, underlying fund charges and expenses, and additional charges for riders that customize a policy to fit your clients' individual needs.

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# Agenda

- **Why high net worth clients need LTC coverage**
  - Level set how much the HNW spend on long-term care
    - And why self-funding may not be a good idea
  - The value of LTC coverage for the HNW
- **Valuable tax deductions afforded to business owners**
  - Purchasing LTC coverage for themselves
  - Executive carveouts of LTC coverage

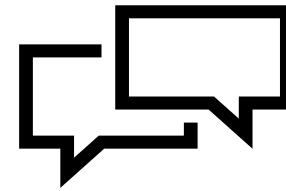


# Why Long-term Care Coverage is Valuable for the High Net Worth

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# LTC coverage is not just for the middle market



## **Misconception of HNW Self-funding LTC**

- Clients wanting LTC coverage may be advised to self-fund LTC by:
  - Financial professional
  - Attorney, CPA
- When approached by FP, clients may declare they can “self-insure” LTC

**Being able to self-fund LTC does not make it a good idea**

**There’s many reasons for the HNW to have LTC coverage**



# Having an LTC Discussion with a HNW Client

## It's not an affordability issue

Connect the client to an “**financial pain point**” which is:



- A problem, concern or cause .....
- particularly if there is an emotional tie .....
- that may not be solved or protected .....
- if money is spent dollar for dollar on LTC

**Find the financial pain point and you justify  
the need for LTC coverage!**

# High cost of long-term care for the wealthy

First, level set with your client the cost of care for the HNW



## Don't Depend on Children

- HNW are not likely to receive care from adult children
  - Kids have high paying jobs – physician, attorney, C-Suite executive



## Pay for 24/7 Home Care

- HNW more likely to receive care 24/7 at home, no matter the cost<sup>1</sup>
  - Average annual cost is **\$260,000**
  - In wealthier areas, **\$350,000 - \$400,000**



## Facilities are “top end luxury”

- Those going to a facility likely go to the “top end luxury” facilities
  - At **\$35,000** per month, upwards of **\$400,000** plus a year<sup>2</sup>

<sup>1</sup> A Place of Mom – “How Much Does 24/7 Home Care Cost in 2024? An In-Depth Guide” – May 9, 2024

<sup>2</sup> Evelyn Battaglia – Brick Underground “Where seniors can find luxury independent living residences with resort-like amenities plus 24/7 personal care” – August 22, 2023

# The Cost of HNW Care Adds Up Quickly

- An LTC event for a HNW individual lasting 3 years can easily exceed a **\$1,000,000** or more in *today's dollars*
- Estimate LTC costs *fifteen to twenty years from now*,
  - an individual could be looking at around **\$2 million**
  - and for a couple upwards of **\$4 million**
- That is a lot of money!
  - Educate the client on actual costs
  - The idea of “self-insuring” may start to lose appeal.
- How could those same dollars have been put to a better use if cost effective insurance had paid for their LTC expenses?
- The above costs can help provide a financial basis for finding “pain points”

# Case Studies

LTC Coverage helps with many types of ***pain points***, including:



- Preserving charitable gifting
- Providing needed liquidity
- Gifting LTC coverage to family members
- Tightening the estate plan and donate to charity now

**Clients may have their own unique pain points to consider as well**



# Case Study #1 - Preserve Charitable Gifting

- Client worth over \$50 million
- Father also quite wealthy
  - *Advised* he could “self-fund”
- Father now spending \$30K a month on 24/7 care
  - Over \$1 million spent in just 3 years
- Father and daughter saddened by how this money could have been put to better use for charity
  - LTC coverage would have been a fraction of total cost
- Daughter bought LTC for maximum benefit allowed

**How can the FA position such a situation?**



# Make a List and Check it Twice!

## For charitably inclined clients

**Ask your client to list the people, charities and causes they intend to leave money to. For example:**

- ✓ Spouse
- ✓ Children/grandchildren
- ✓ Children's Hospital, Medical Research
- ✓ Art Museum
- ✓ Veteran support organization
- ✓ Public television
- ✓ Homeless shelter



**Now ask them:**

**Which ones do I cross off the list because you spent that money on long-term care?**

# Case Study #2 – Asset Rich, Cash Illiquid



## Client Profile

- **Real estate developer**
  - Worth hundreds of millions
  - Not always very liquid
- Concerned how to pay for
  - care for himself, maintain spouse's lifestyle
  - both of their care needs at home 24/7



## Solution

- A cash indemnity joint life linked benefit policy
  - could also use 2 separate policies
- Provides cash benefits
  - no restrictions, pay for alternative care
- No worries about liquidity when LTC is needed
- Client purchased maximum benefit with a single premium while now liquid

# Purchasing LTC for Family Members

**Will you be responsible for a family member's care?**

**LTC coverage is a great gift for family members!**



- Adult child buying for parents, parents buying for adult children
- Gift using a portion of lifetime gift exclusion for single premium
- Insured must be the owner of policy for it to be a gift
- Use annual gifting for multi-pay premiums
  - 2025 annual gifting limit is \$19,000 per person
  - Consider reducing that by \$1K - \$2K to cover birthday and Christmas gifts
- Each person can gift each person the annual gifting amount
  - If both parents alive, double gift and double LTC benefits!
  - If adult child is married, double gift and double LTC benefits



# Case Study #3a - Parents Gifting to Adult Children

Purpose – help sustain and pass down generational wealth

Used \$17,000 of the \$19,000 (2025) annual gift exclusion - Pay premium for 10 years

## **Female, 45, NT, Married**

### **Linked benefit LTC policy**

- 6 yr. benefit - 3% compound inflation
- Death Benefit - \$238,600
- **LTC benefit day one - \$716,000**
  - Monthly benefit \$9,900
- **LTC Benefit age 80 - \$2,171,400**
  - Monthly benefit - \$28,000

## **Male, 47, NT, Married**

### **Linked benefit LTC policy**

- 6 yr. benefit - 3% compound inflation
- Death Benefit - \$272,000
- **LTC benefit day one - \$816,000**
  - Monthly benefit \$11,300
- **LTC Benefit age 80 - \$2,330,000**
  - Monthly benefit - \$30,000

### **LTC Rider on Life Insurance**

Life insurance DB - **\$1,209,400**

**\$24,190 @ 2% for 50 months**

### **LTC Rider on Life Insurance**

Life insurance DB - **\$1,011,600**

**\$20,230 @ 2% for 50 months**

LTC benefits will reduce the death benefit dollar for dollar in both above.

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# Case Study #3b - Adult Children Gifting to Parents

- Purpose – pay parental LTC bills in a more cost- effective manner
- Adult children will likely want to own these policies (not a gift)
  - To maintain beneficial rights on death benefit if policy not used
- Parents aged 68 (F) and 70 (M) – both NTP
- Joint life linked benefit policy – no inflation

## Single Premium \$500,000

- **\$1,730,000 LTC benefit pool**
- **LTC benefit - \$18,000 each**
- 96 payments to share
- Both can be on claim at same time
- **\$648,000 tax-free DB** if policy not used

OR

## Pay \$50,000 for 10 years monthly mode

- **\$1,390,000 LTC benefit pool**
- **LTC Benefit - \$14,420 each**
- 96 payments to share
- Both can be on claim at same time
- **\$519,150 tax-free DB** if policy not used
- **Waiver of premium** if one or both insureds are on claim while premium due

LTC benefits will reduce the death benefit dollar for dollar in both above.

# Use LTC Coverage to Tighten and Estate Plan

## Problem

- Client's plan is to set aside \$1,000,000 in estate for LTC
- Self-funding LTC may create a weak link in the estate plan
  - Unused funds (exceeding the lifetime exclusion) could be subject to estate taxation (up to \$400,000)

## Solution

- LTC riders/linked benefit policies can be used in ILIT
  - LTC benefits are paid to policy owner (the trustee) with no obligations to pay funds to grantor
    - Note: There are differing opinions on whether the policy must be indemnity
- Use collateralized arms length loans to borrow money from trust without incidents of ownership
  - Collateral .....Interest Rate .....Loan is repaid in full
    - Interest taxable if repaid after death
- Pay for policy with a fraction of the \$1,000,000
  - Donate the rest today - file for a tax deduction!
  - \$1,000,000 out of estate and no longer subject to estate tax

# Case Study #4 – Estate and Donation Planning

- A 60-year-old male, non-tobacco, married
  - Single premium of **\$200,000** buys linked benefit policy owned by ILIT
  - 3% compound inflation, and 6-year LTC benefit
- Day one LTC benefit pool, **\$920,000** - **\$12,800** a month
- Age **80**, LTC benefit pool nearly **\$1.8 million** - over **\$23,000** a month
- **\$306,000** tax free death benefit paid to ILIT if policy not used
- **\$800,000** can be **donated to charity now** - file for a tax deduction!
- Or double coverage – pay a \$400,000 premium, donate \$600,000

## Result

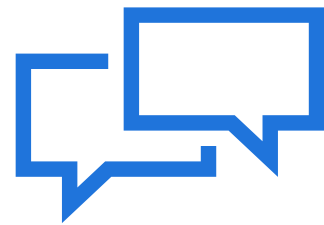
- **\$920K LTC** policy **replaces** self-fund **\$1 million** – **grows at 3% in ILIT**
- Charity gets **\$800 donation now**, not at death
- **Removed \$1 million** from the estate
- At 37% tax bracket, up to **\$296,000** may be recouped thru a tax deduction





# Help Avoid Family Dissention with LTC Coverage

- HNW clients are much less likely to receive care from their adult children
- But one adult child may be the primary coordinator of care and billing
- The more kids in family, the more chance of siblings “butting heads” about how money is being spent on the parent’s care
  - Or the spouse of an adult child causes the dissention



*“How much money have you gone through paying for Mom’s care?”*  
*“Not to worry, insurance is paying for it!”*

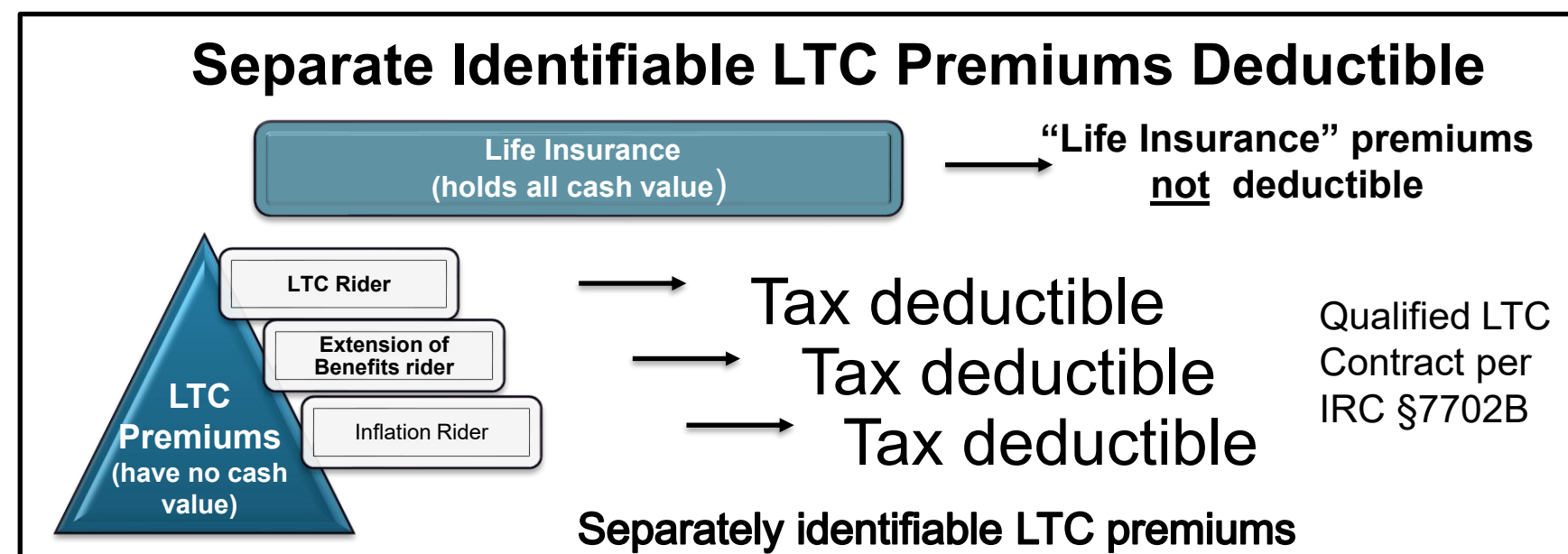
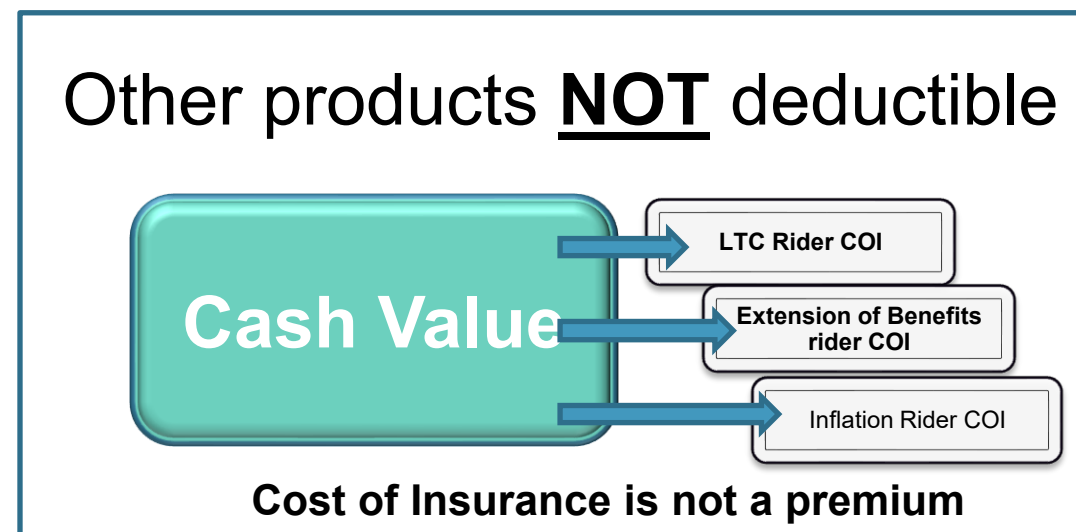
# Tax Advantages for Business Owners Buying LTC Coverage



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# Policy Structure is Key to Tax Deductible Premiums

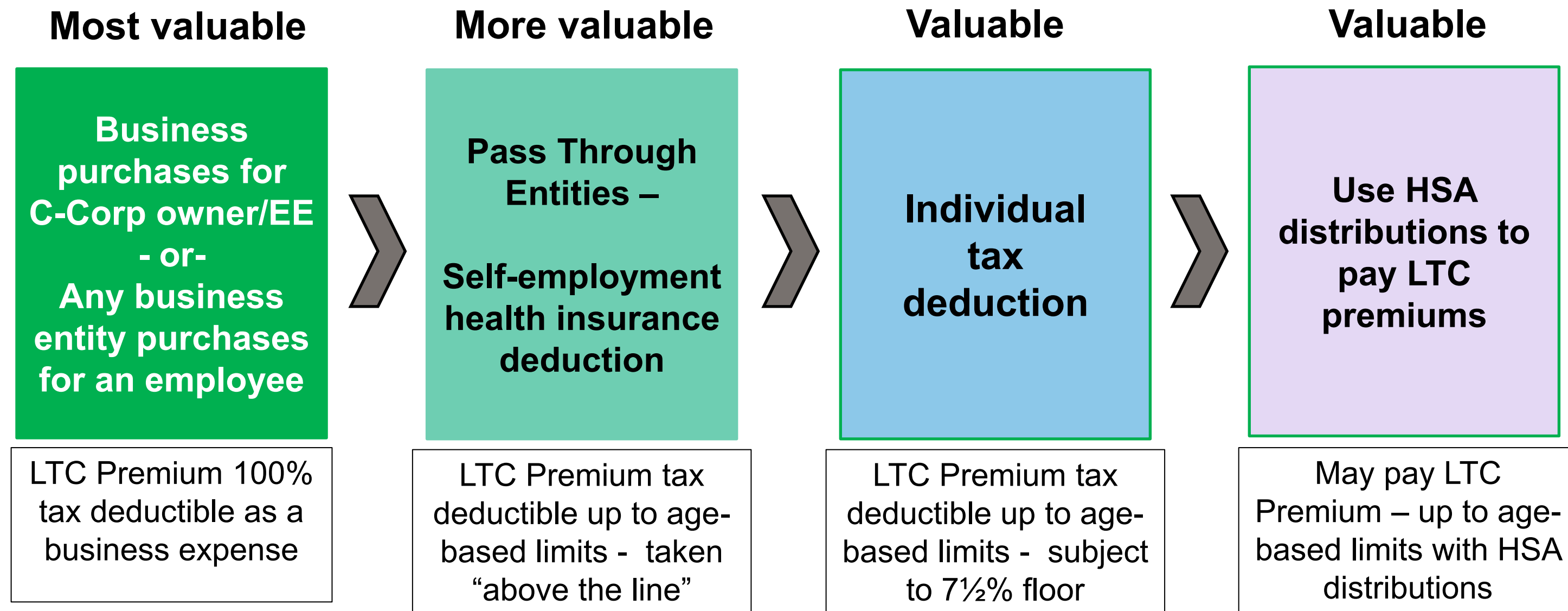
- **LTC premiums must be separate and identifiable**
  - Cost of insurance for LTC rider charges is **not** a premium
- Traditional stand alone LTC policies have this structure
- Some linked benefit LTC policies have this structure
- Rare for LTC riders on life insurance have this structure
  - (usually only found on whole life policies)
- LTC riders on annuities do not have separate identifiable LTC premiums





# Hierarchy of Tax Advantages by Situation

The value of tax advantages varies by business entity  
and individual opportunities





# Value of “Above the Line Deductions” for Pass-through Entities



## Above the Line Deductions

- Above the line deductions come directly off Gross Income
- Qualifying LTC premiums are considered business expenses
- No need to itemize deductions
- LTC premium deductions not subject to the 7½% floor
  - but may be subject to age-based limits
- Thus, they may be more valuable deductions

# Pass-through entities

- Self-employed individuals may deduct qualified LTC premiums
  - Above the line deduction (not subject to 7 ½ % floor)
  - May include spouse and dependents
    - Cannot deduct LTC premiums in any month in which either spouse is eligible for subsidized LTC benefits from another employer
  - Deduction is subject to age-based limits

	2018	2019	2020	2021	2022	2023	2024	2025
<b>40 or under</b>	\$ 420	\$ 420	\$ 430	\$ 450	\$ 450	\$ 480	\$470*	\$480
<b>41-50</b>	\$ 780	\$ 790	\$ 810	\$ 850	\$ 850	\$ 890	\$880*	\$900
<b>51-60</b>	\$1,560	\$1,580	\$1,630	\$1,690	\$1,690	\$1,790	\$1,760*	\$1,800
<b>61-70</b>	\$4,160	\$4,220	\$4,350	\$4,520	\$4,510*	\$4,770	\$4,710*	\$4,810
<b>71+</b>	\$5,200	\$5,270	\$5,430	\$5,640	\$5,640	\$5,960	\$5,880*	\$6,020

- Each pass-through entity has slight variations in how premiums paid are reported on the tax return\*\*

\* Note despite variances due to formulation, age-based limits increase over time

\*\* Please consult a tax advisor for details on how each business entity reports and deducts LTC premiums



# Employee LTC benefits using Linked benefit policies (properly structured)

## C-Corp owner/EE, Non-owner/EEs & Less than 2% owner/EE of an S-Corporation



- May include spouse and tax dependents – ideally, set up family or spousal plan
- **Life insurance premiums** are treated as a compensation bonus
  - 100% tax deductible to business as a business expense (paid compensation)
  - 100% taxable to employee as compensation received (includes spouse's life premium)
- **LTC premium** treated as payments for an accident & health plan
  - LTC premiums 100% tax deductible to business (no age-based limits)
  - LTC premiums totally excluded from employee's income - no taxation (includes spouse's LTC premium)
  - LTC benefits paid tax free per IRS guidelines
- Employer may not have any ownership or beneficial rights
- Owner must be bona-fide employee – no deduction for silent partners/investor

LTC insurance may not be offered as part of a cafeteria plan under IRC §125(f),

# How the Numbers Work

## **Male 55 – married – NT** **6-year benefit, 3% compound**

Employer bonuses employee  
**\$20,000** a year for 5 years –  
total **\$100,000**

Annual Deduction to business - **\$20,000**  
Annual taxable income to employee - **\$12,400**

Death Benefit - **\$153,000**  
Age 80 LTC Benefits - **\$1,034,000**  
**\$13,325** per month – TAX FREE

### **With no inflation**

Annual Deduction to business - **\$20,000**  
Life Premium (taxable to EE) - **\$17,000**  
LTC Premium - **\$3,000**  
LTC Benefit (all years) - **\$626,300 (\$8,700 mo.)**  
Death Benefit - **\$208,000**

## **Female 55 – married – NT** **6-year benefit, 3% compound**

Employer bonuses employee  
**\$20,000** a year for 5 years –  
total **\$100,000**

Annual Deduction to business - **\$20,000**  
Annual taxable income to employee - **\$9,640**

Death Benefit - **\$130,000**  
Age 80 LTC Benefits - **\$883,000**  
**\$11,375** per month – TAX FREE

### **With no inflation**

Annual Deduction to business - **\$20,000**  
Life Premium (taxable to EE) - **\$14,400**  
LTC Premium - **\$5,600**  
LTC Benefit (all years) - **\$583,000 (\$8,100 mo.)**  
Death Benefit - **\$194,000**



# Final Thoughts



## Business Owner

- Recruit, Reward, and Retain valuable employees by offering the valuable benefit of LTC coverage
- Business owners can also get a deduction for LTC premiums when purchasing LTC coverage through the business – and spouse too!



## Employees

- Employees gets LTC coverage and only pays tax on the bonus paying for the life insurance premium!
- LTC benefits are tax free, even though premiums were paid for by employer!
- Employer can “double bonus” so employee has a net \$0 tax.

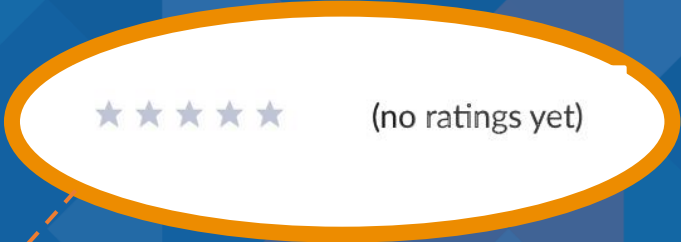
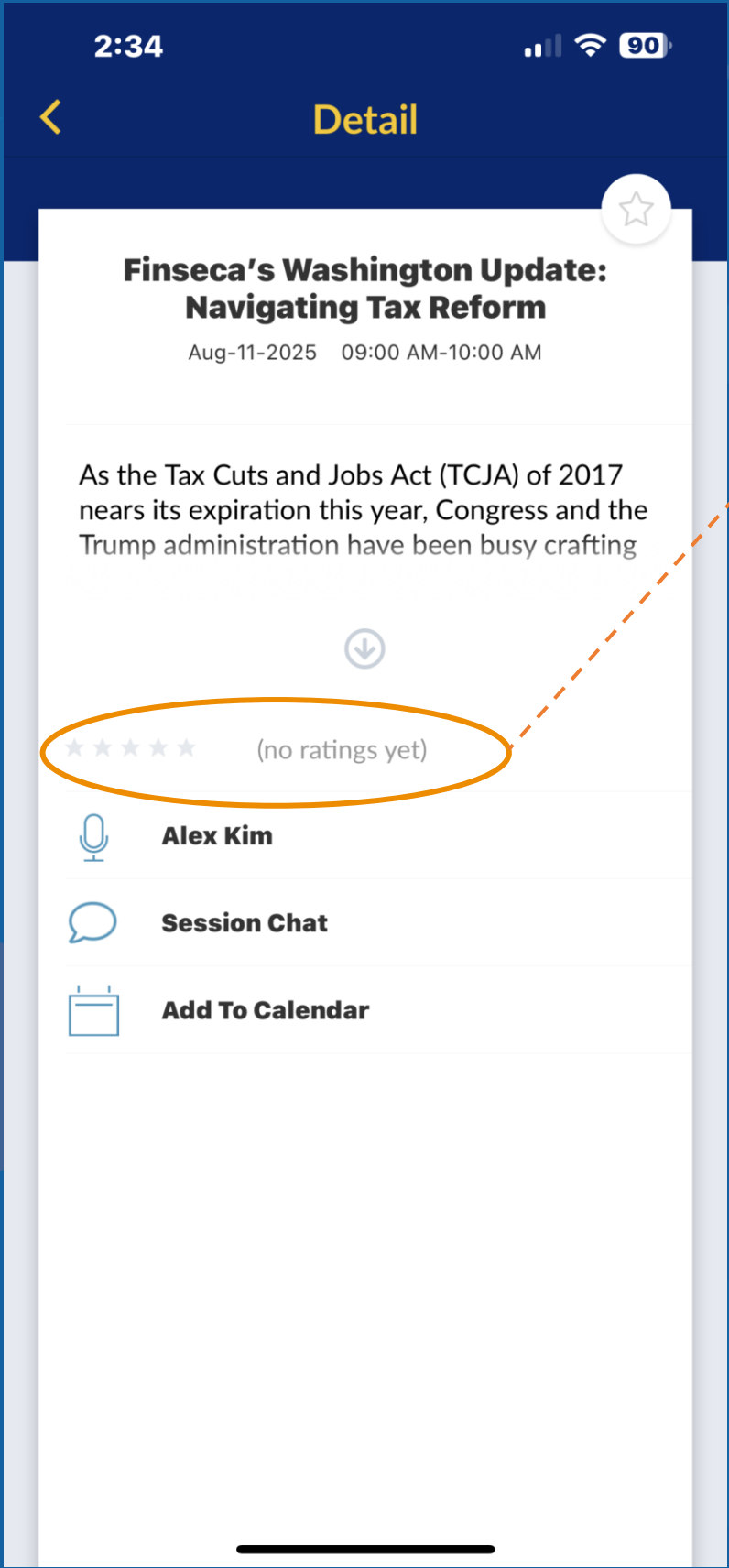
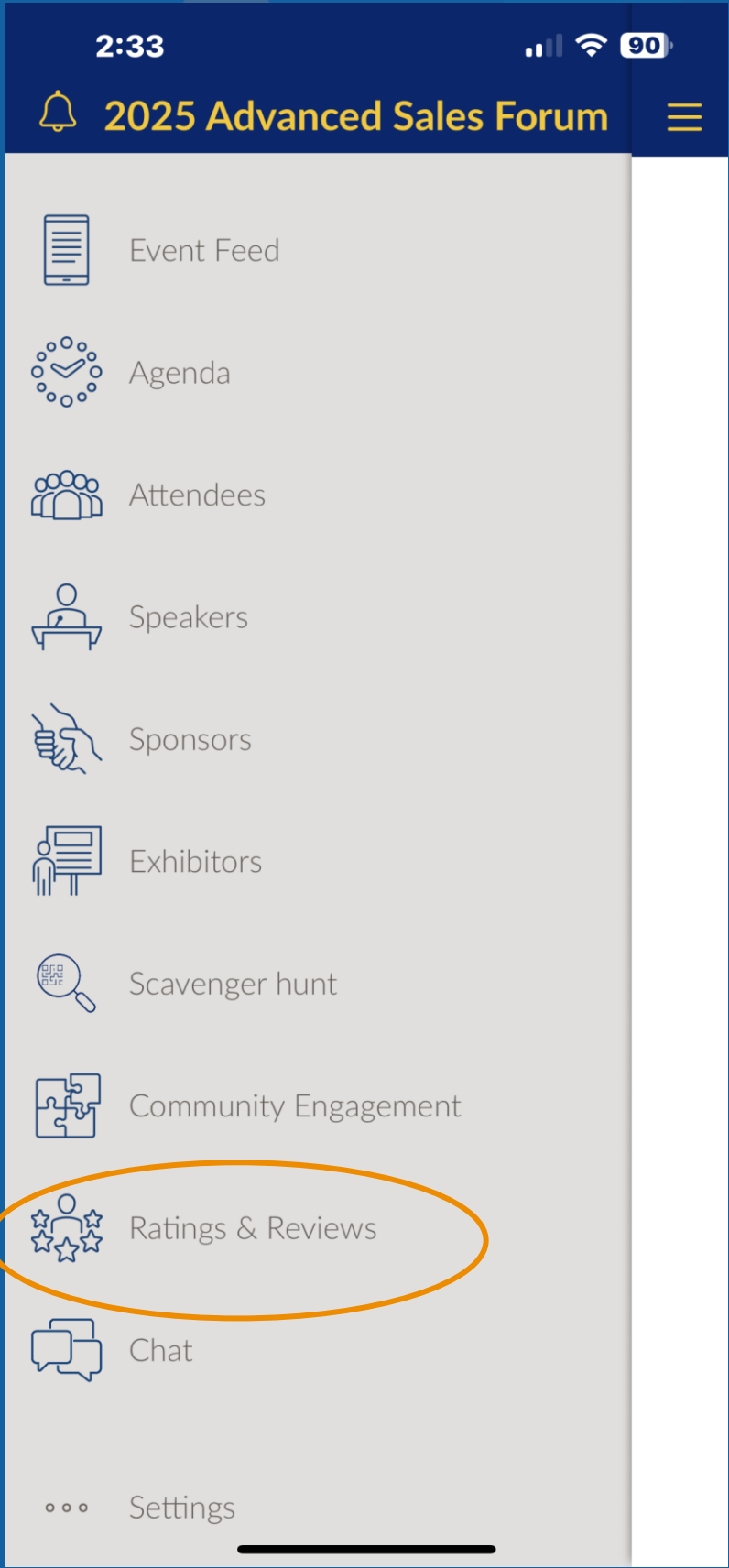


## High Net Worth

LTC coverage for HNW clients can help with:

- Preserving charitable giving
- Liquidity challenges
- A cost-efficient way to help family members pay for LTC
- Preserving generational wealth
- Tightening estate plans
- Family dissention

# Please Provide Your Feedback on the Conference App



# Thank You

