



Executive Asset Protection

PRESERVING AND PROTECTING EXECUTIVES' RETIREMENT ASSETS

CORPORATE TAX INCENTIVES FOR LIFELONG EXECUTIVE ASSET PROTECTION

Employers, today more than ever, are looking for alternative means to control cost and continue to offer competitive benefit products. As healthcare and other “core” benefit costs continue to rise it’s important to examine benefit strategies that can be of value to both the organization and the employee. Long Term Care Insurance is one such strategy that is emerging as an appealing method for attracting, rewarding, and retaining key executives for any size corporation.

The executive market is “tailor made” for Long Term Care (LTC) insurance. Incorporating a Corporate LTC strategy will allow you to create customized plans for select groups of highly compensated employees while providing favorable tax treatment to the corporation and policy holders. In addition, paid-up options allow you to limit the time frame of premium outlays to the duration of the executives’ employment while continuing

executives’ benefits after retirement. These paid-up premium options, along with return of premium riders, are a cutting edge approach in the Corporate LTC market.

The shift in federal policy continues to move the burden of long term care costs from the government to the individual. At the same time, the cost of nursing homes and similar care providers is rapidly escalating. This trend is projected to continue as the life expectancies of healthy retirees extend into their 80’s and 90’s and the probability of needing long-term care increases. The costs associated with LTC can quickly deplete the financial resources that executives planned on during retirement.

Corporate LTC will allow you to create customized plans for select groups of highly compensated employees while providing favorable tax treatment to the corporation and policy holders.

A corporate sponsored Executive Carve-Out Plan provides tax benefits to the corporation while helping executives fund their long-

term care needs, secure retirement assets, and preserve their estates for future generations.

CORPORATE SPONSORED LTC PLAN ADVANTAGES:

The Federal Government has provided favorable tax treatment of premiums and benefits for Qualified Long-Term Care Insurance Policies. Under the Health Insurance Portability and Accountability Act of 1996 (HIPAA), an employer-sponsored LTC plan is treated as an accident and health plan. This arrangement provides benefits for employees, their spouses, and their dependents in the event of personal injury or sickness.

Flexibility is one of the key advantages of a corporate sponsored LTC plan. These plans are not subject to the anti-discrimination rule and thus allow employers to structure plans for one or more employees, select groups of highly compensated employees, or different plans for different classes of employees. Typically, these paid up policies are not subject to future rate increases.

Companies can move pre-tax corporate dollars out of the company by purchasing qualified LTC policies and deducting those

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dollars as a usual business expense. This can lead to a substantial “discount” on the cost of insurance when considering your corporate tax structure. In addition, using a full non-forfeiture rider will also allow the company to pass premium dollars to the designated beneficiaries (designated to you or your key employees) regardless of the amount paid in claims. (IRC 7702 (b)(2)(c))

Using LTC as an executive benefit can also be used to help retain key employees with “golden handcuffs” by holding beneficiary designation and policy ownership.

For example, the corporation can structure a vesting period over 5 or 10 years before turning ownership and beneficiary designations over to the employee.

WHY USE LTC FOR A CORPORATE BENEFIT?

Finding and retaining quality employees is an ongoing challenge. Using a LTC plan as an executive benefit can provide a “golden parachute”, rewarding key employees and giving them lifetime protection against the devastating cost of long term care. In most cases employer paid premiums are not included as gross income to the employee and benefits paid to reimburse long-term care costs will not be taxable to the employee.



HOW IT WORKS:

The following is a brief summary of the steps and benefits of implementing an Executive Carve-Out LTC plan.

- ▶ Establish criteria for plan participants.

- ▶ Purchase LTC insurance on key employees or executives
- ▶ Company paid premiums are deductible to corporation (IRC 162)
- ▶ Premiums paid for LTC are not taxable to executive (IRC 7702B d (4))
- ▶ Benefits are tax-free (up to \$220/day in 2003) (IRC 7702B d (4))
- ▶ Executive’s estate is protected from high cost of long-term care
- ▶ Beneficiary or Estate gets an income tax free “refund of premium” upon the death of insured(s) (IRC 7702 B (b)(2)(c))