Long-Term Care Services℠ Rider
with Life Insurance

an estate planning tool

flexible estate planning: the importance of cash value

Explore Estate Planning's New Dimension: Trust-Owned BrightLife℠ Protect Insurance and the Long-Term Care Services℠ Rider[1]

If you could show your large estate clients a way to cover potential long-term care expenses, get money out of their taxable estate, and have emergency access to cash values, would they be interested?

client profile

- Has accumulated significant wealth and faces estate tax concerns
- Has an established life insurance need[2]
- Is concerned about creating a financial legacy in the most tax-efficient manner
- Is looking to add flexibility in his or her estate plan

Situation

Most wealthy individuals have investigated the impact of estate and other transfer taxes on the financial legacy they will leave their families. Many have taken steps to address liquidity needs and to eliminate or make up for estate shrinkage. Usually, life insurance and an irrevocable life insurance trust (ILIT) are part of the strategy.

However, often the impact of their health care costs and long-term care needs isn't planned for.

The combination of an ILIT with an AXA Equitable life insurance policy and our Long-Term Care Services℠ Rider (LTCSR), available for an additional cost, can provide a flexible and practical planning strategy. The LTCSR can be added to all or a portion of the full policy death benefit, referred to as the "acceleration percentage." The Acceleration Percentage is used to determine the maximum amount available under the terms of the LTCSR, known as the Long-Term Care Specified Amount. The policy owner can choose a Monthly Benefit Percentage of 1%, 2%, or 3% on the LTCSR application questionnaire at issue. The availability of the Monthly Benefit Percentage may be limited due to the age of the Insured. Once selected, the Monthly Benefit Percentage cannot be changed after the policy is issued.

1 The LTCSR is available with many of AXA Equitable's permanent life insurance policies. In Florida, this rider is called the Long-Term Care Insurance Rider.
2 The following presumes that individuals considering this approach have an established life insurance need. In this case the need may be for estate planning or other wealth transfer approaches. If a life insurance need doesn't exist, other approaches might be more appropriate.

Strategy

John and Mary Smith[3] have decided to fund an ILIT with $4,000,000 of BrightLife℠ Protect on John's life to cover projected estate tax costs. The life insurance policy is owned by an ILIT, but most basic trust designs provide the trust grantor with little or no access to the trust assets, including the life insurance cash values, for any purpose.

However, a number of trust designs will allow a trust creator, or the trust grantor's spouse, to have use of the trust's funds either directly or indirectly.[4] These designs include provisions that will allow the grantor's spouse to be a trust beneficiary, who can receive discretionary distributions. Frequently, these trusts allow for loans to the trust grantor (or creator). This can offer additional planning liquidity, if needed. During the life of the trust's grantor, usually it is the policy cash surrender value or other trust assets that can be accessed.

If the life insurance policy includes the Long-Term Care Services℠ Rider, the trust is still granted access to the policy cash surrender value as it grows. The trust can still be the beneficiary of a $4,000,000 death benefit at John's death either. However, if John's health declines and his condition triggers the rider's long-term care benefit, the trust will also be able to tap into all or a portion of death benefit while John is still alive. John and Mary have decided to add the LTCSR with an acceleration percentage of 50% of the policy death benefit. In this case, that is $2M of the $4M total.

Result

BrightLife℠ Protect on Male, Age 50, Preferred Rating

- **$4,000,000 Death Benefit Face Amount**
- **50% Death Benefit Acceleration Rate**
- **1% Long-Term Care Services℠ Rider[5] to 50% of the plan**
- **Premium without the LTCSR:** $33,908
- **Premium with the LTCSR:** $35,546
- **Incremental cost increase for a $240,000 annual LTC benefit:** 3.8%

Year	Death Benefit	Policy Cash Surrender Value	LTCSR Annual Pool[6]	Maximum[7] Annual HIPAA Amount	Maximum[8] Annual LTCSR Benefit
1	$4,000,000	$0	$240,000	$118,800	$237,600
5	$4,000,000	$4,177	$240,000	$118,800	$237,600
10	$4,000,000	$165,579	$240,000	$118,800	$237,600
15	$4,000,000	$411,194	$240,000	$118,800	$237,600
20	$4,000,000	$638,504	$240,000	$118,800	$237,600
25	$4,000,000	$888,428	$240,000	$118,800	$237,600

Values shown are based on a premium solve for $1,000 of CSV at age 100. The cash value and death benefit amounts used for this case are intended only to help demonstrate the planning concept discussed and not to promote the sale of a specific product. The amounts are broadly representative of rates that would apply for a policy of this type and size for Insureds of good health in the ages mentioned. To determine how this approach would work with your clients, individual illustrations should be prepared or requested for your review. If different rates were used, there might be significantly different results.

3 John, age 50, is a non-smoker who has qualified for a preferred life insurance rate.
4 A Spousal Lifetime Access Trust and a trust with a power to compel arm's-length loans are two examples.
5 Rider benefit percentages available include 1%, 2% and 3%.
6 Rider benefit percentage of 1% on a $4-million policy with a 50% acceleration rate creates a monthly benefit of $20,000.
7 HIPAA amount in 2014 is $330 per day.
8 In all states but New York, the Rider maximum benefit is the lesser of 2 times the HIPAA amount or the benefit percentage amount. In New York it is the lesser of the HIPAA amount or the benefit percentage amount.

What Have You Achieved?

As an example of what this could mean to the Smiths' estate plan, let's take a look at policy year 15.

- If John is alive and healthy, the trust can tap into the policy cash surrender value of $411,194.
- If John's health declines and the long-term care benefit is triggered, the trust will have access to the policy's $4,000,000 death benefit amount on a monthly basis, subject to the policy's terms and its maximums. Using 2014 HIPAA values, that would equate to an initial monthly maximum of $19,800 and an annual maximum benefit of $237,600 until the death benefit is exhausted.[9]

Monthly access means the trustee has the option of tapping into the death benefit each month. The trustee can:

- Loan the Smiths the amount needed to cover long-term care expenses if their liquidity is an issue;
- Use the benefits to offset other trust expenses or relieve the Smiths of gifts they otherwise planned to make to the trust;
- Purchase assets from the Smiths to create liquidity;
- Distribute assets to the trust beneficiaries, which may include Mary Smith or the children;
- Invest the cash for the benefit of the trust beneficiaries, to replace assets depleted by long-term care expenses; or
- Depending on circumstances at the time, the trustee could elect not to access the long-term care benefit, leaving the policy death benefit intact.

This cash access option opens the door to additional estate planning advantages. If the trust loans the Smiths cash, the interest payable can help reduce the estate growth and transfer additional values to the heirs without transfer taxes. If the trustee purchases assets from the estate, valuation discounts may be available and future asset appreciation will have been transferred out of the estate. And, if the Smiths need liquidity, the option remains with the trustee to access the life insurance policy.

Loans taken will be free of current income tax as long as the policy remains in effect until the Insured's death, does not lapse, and is not a MEC. Please note that outstanding loans accrue interest. Income-tax-free treatment also assumes the loan will eventually be satisfied from income-tax-free death benefit proceeds. Loans and withdrawals will reduce the policy's cash value and death benefit, may cause certain policy benefits or riders to become unavailable, and may increase the chance the policy may lapse. If the policy lapses, is surrendered or becomes a MEC, the loan balance at such time would generally be viewed as distributed and taxable under the general rules for distribution of policy cash values. In addition, withdrawals, policy loans, and any accrued loan interest may cause the policy to lapse even if the client is in a period of coverage under the no-lapse guarantee rider.

9 The trust will have access monthly to an amount equal to current HIPAA limits. For 2014, this is the lesser of $19,800. ($330 x 30 x 2 = $19,800) or $20,000 (1% of $2 million = $20,000).
10 See IRS Form 8853 and related instructions.
11 Sample documents for attorneys are available to financial advisors appointed with AXA Equitable.

What About Income Taxes?

The benefit amounts available with The Long-Term Care Services℠ Rider will normally be treated as "the accelerated payment of life insurance death benefits paid due to the Insured being chronically ill." All or part of the amounts received by a trust, as policyowner, may be received free of federal income taxes. If there are no other long-term care benefits paid on behalf of the Insured, the greater of the actual long-term care expenses paid on behalf of the Insured or the annual HIPAA maximum will normally be available free of federal income taxes.[10]

Why AXA?

You want the confidence that the insurance company you choose has the financial strength to fulfill its obligation now and in the future. AXA Equitable Life Insurance Company (AXA Equitable) and MONY Life Insurance Company of America (MLOA), premier providers of life insurance products, have been helping individuals reach their most important goals.

The Long-Term Care Services℠ Rider is an indemnity benefit that is paid to the policyowner in which he or she is chronically ill or requires substantial supervision due to a cognitive impairment. As a result, a policyowner, such as a trustee, does not need receipts for medical services. This may be a significant advantage over a reimbursement rider.

For More Information, Please Contact the Life Insurance Sales Desk or Visit www.axa.com.

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