Where a Child Desires Long-Term Care Coverage on a Parent

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We're focusing this month on Life Insurance and Family, with a special focus on generational planning. A recent case shows how the DBS team works for YOU to create solutions!

Situation: An adult child desired to purchase a life insurance policy with a long-term care or chronic illness feature on his elderly mother to help address long-term care concerns. The child recognized that he could be held responsible for expenses incurred by his mother under the Filial laws, and he wanted to protect against this risk. The adult child wanted to be the policy owner and beneficiary since he was paying the premiums.

THE PROBLEM

Problem: The carrier approved the face amount requested but did not want the child as the owner. The carrier would only approve the coverage with the insured or the insured's trust as the owner.

Solution: The DBS advanced case design resource explained that two problems are often encountered when purchasing coverage on insureds who are retired and who desire coverage primarily to cover potential long-term care costs. First, the face amount is often very small because carriers typically limit coverage to a multiple of "earned" income which does not include Social Security or pension/investment distributions. The second problem, as illustrated in this case, is that it's not unusual that a child is paying the premium and as such wants to own the policy to make sure the policy is used for its intended purpose.

THE PROPOSAL

DBS's advanced case design resource suggested that the desired control could be achieved by putting a collateral assignment on the policy owned by the parent. With a collateral assignment, rights to the policy require consent of both parties. According to the carrier, even if the insured met the 2 of 6 ADLs to qualify for long-term care payment, the decision whether to accelerate the death benefit required consent of both parties. Furthermore, the carrier of this indemnity style product indicated that it would pay the benefits equal to the assigned amount first to the child. The child could use the amounts as he pleased, including as a payment of medical benefits which are not treated as a gift under the current tax law.

Result: While the client was not crazy about the option it was better than going to the expense of establishing a trust to own the policy.

Our team of talented Case Design Analysts will work with you to find solutions for your clients. They have the in-depth knowledge of all our carriers and products, and they're able to dig deeper into the situation to find a solution that may not have been apparent at first glance.

Contact your Dedicated DBS Case Design Analyst to learn more!

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