How to Leverage Up IRA Dollars for Long-Term Care Expenses

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It's important to have a long-term care plan to protect your assets, but did you know you can use money from a retirement plan to help fund your long-term care insurance?

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The best estate and/or retirement planning cannot be considered complete if it does not cover the area of Long-Term Care (LTC) expenses. We all want to protect our assets and avoid asset spend down in the event of an illness or accident that causes the need for LTC. If you or your spouse had LTC expenses tomorrow, what assets would you start to liquidate first to pay for it? Would you be forced to sell real estate, stocks or bonds in a down market? Why not plan for LTC expenses before they happen?

One option to help with this type of planning may be to use money from a retirement plan. For someone who has a large retirement plan, IRA, 401(k) or 403(b) and does not need income from the entire account, they may want to consider repositioning the retirement money into an asset-based LTC insurance product. By repositioning retirement dollars into an asset-based insurance product it will allow a person to use retirement dollars for LTC expenses and turn taxable dollars into income tax-free dollars for their heirs. This asset-based insurance product includes an IRA annuity that automatically funds a 20-pay whole life insurance policy each year.

Each year a withdrawal is taken (which is taxable to the owner) from the IRA annuity until the 20-pay life insurance policy is paid up and the IRA annuity is exhausted. When the IRA owner turns 70½, the insurance company will calculate the Required Minimum Distribution (RMD) based upon the IRA annuity cash value. The RMD will be used to pay the 20-pay life insurance policy. One person's IRA can provide protection for both spouses.

LTC expenses from the tax-qualified whole life policy are income tax-free for qualifying LTC expenses. When the insured dies, or when the second insured on a joint policy dies, the death benefit of the life insurance policy passes income tax-free to the named beneficiaries.

Let's look at an example: Husband, age 65, and wife, age 63, both in good health. Husband repositions $200,000 from his IRA into an asset-based LTC policy. The $200,000 will immediately be leveraged up to $377,028 for either or both husband and wife to use for LTC expenses or a death benefit at the second death. $13,051 is transferred from the IRA annuity portion of the asset-based LTC policy into the life portion of the asset-based LTC policy each year for 20 years. The $13,051 is taxable each year and helps to meet the RMD. If home health care is needed, the policy will pay $7,541 each month after a 30-day waiting period. $7,541 will be paid for assisted living, LTC facility and adult day care each month after a 60-day waiting period. This benefit will be paid each month until the $377,028 has been completely spent. An optional lifetime rider can be added to the policy for an additional fee. Any unused portion of the $377,028 will pass on to beneficiaries, so if someone does not use it, they do not lose it.

In order for the benefit to be payable, a plan of care must be prescribed by a licensed health-care practitioner; and that individual must be certified by a licensed health-care practitioner as being chronically ill by either being unable to perform two activities of daily living for 90 days or require substantial supervision due to a severe cognitive impairment.

In summary, by repositioning a portion of one's retirement plan into an asset-based LTC policy, leveraging money, and having assets available instead of scrambling to cash out assets at the last minute with a potential loss can help safeguard the rest of your estate. This strategy can also work with non-retirement money. ■