

## Reward Your Business Clients with Loaded Long-Term Care Plans

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**I/R Code: 100.071**

**Cassette: A0548**

**CD: C0548**

My experience with Long Term Care insurance is that most life agents have not been exposed to the tremendous marketing opportunity available. What I want to talk to you about today is an opportunity to look at Long Term Care Insurance in a whole new light. It should be viewed as a financial opportunity for you, your clients and people who really need to hear about this. So we're going to go through this at high-speed. I'm going to take you through four or five examples. I'm going to help you understand how Long Term Care products can work for you and benefit your clients.

My presentation is titled: "Reward Your Business Clients with Loaded LTC Insurance Plans." Yesterday, Long Term Care insurance was about the limitations of Medicare and Medicaid, nursing home expenses and the financial concerns of the elderly. The entire industry has focused on these concerns. Today, Long Term Care insurance sales include tax advantaged planning for executive benefits, rewards to key employees for dedicated service, estate planning and gifting strategies, and about fully paid post-retirement health benefits for a lifetime. We will focus on these planning strategies today.

In August of 1996, the HIPAA tax law was passed. And IRC SEC. 7702B was created. SEC. 7702B contained the vocabulary and definitions for Tax Qualified Long Term Care and Long Term Care Insurance; one describing qualifying care for individuals and the other defining the insurance product features.

What SEC. 7702B said was that the premiums paid by employers would be tax deductible. The benefits would be tax-free and the premium would not be reportable on the W-2. It sounds like health insurance, and that's exactly how it is to be treated for tax purposes. SEC. 7702B also approved the use of reimbursement and indemnity policies, two unique and distinctive methods of delivering benefits.

Today we have carriers that offer reimbursement plans. We have carriers that offer indemnity plans. And we have carriers that offer both within one plan. So it gets a little confusing.

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The reimbursement model works like hospitalization. You buy a benefit, become eligible for a benefit, file a claim, and the carrier will pay the amount they believe they should for the claim.

The other method is indemnity, but the law calls it “per diem”. The indemnity process is quite different. It works like disability income insurance. The policy wording says that when you trigger a claim, you will receive the benefit dollars that are guaranteed for the entire day. So, if you had a \$50 visit from a home health care provider and you had a \$300 daily benefit, under an indemnity plan, the carrier would provide the \$300.

One thing that came about in that tax law is that all benefits from Long Term Care policies are reported by way of something called a “FORM 1099 LTC”. If you receive benefits from an indemnity policy, you are required to file one additional form: Form 8853. Form 8853 is used to determine the amount of tax-free benefits you can receive and what part, if any, of the benefits paid from your policy may be taxable. Congress is concerned that if you have an indemnity policy, there might be a tendency to abuse the tax free benefit payments. You may want to buy as much as possible and get those benefits tax-free for a lifetime. So Congress annually establishes a tax-free daily benefit; and this year it's \$240. Anything above that is taxable, unless there are expenses to offset it. So Congress has provided a way to receive all you can on a tax-free basis.

In the process of working with this new tax law, what most insurance carriers did was to create something called Tax Qualified Long Term Care. What they didn't do is recognize that these new LTC policies could be treated as property in the same manner as their life insurance plans are. They did not recognize that these policies could offer an opportunity for wealth and capital transfer. Today, most carriers recognize the insured, and the insured only, in a Long Term Care environment.

In my work, I help the insurance company create “Ownership Forms”. We created applications called Ownership Applications, so that a Long Term Care policy can have a named premium payer, an insured, an owner

and a beneficiary. I felt that if we could take a great product and treat it as property, we could help people transfer wealth.

We also made provisions to allow for an Irrevocable Beneficiary. In the world of Long Term Care insurance, this isn't too important unless you have a product that creates value. We're going to talk about those values.

One of the values that I think is extremely important in doing wealth transfer and in marketing Long Term Care is the opportunity for a return of premium. If you owned a Long Term Care policy that allowed for all premiums to be returned at the death of the insured, you have an opportunity to communicate a unique wealth transfer strategy.

The products that I market offer a full return of premium at death. Simply stated, this means that we can insure people, provide care for a lifetime, have a policy that increases benefits annually, sell a high daily benefit plan, and provide care in a setting of the insured person's choice - which is normally their home. Wealthy people prefer the privacy of their home for care. Then return all of the premiums paid for the plan at insured person's death without deducting the claims paid.

I want to explain that again. We're going to pay for their care for a lifetime, in the setting they choose, normally have the corporation they own pay for the policy over a period of time, five years or ten years, have a paid up contract and at the death of the insureds, no matter how many claims we pay during their lifetime, we will return all premiums to a named beneficiary. That's created some excitement when we visit with clients, because it gives us an opportunity to move money. Under the current law, the proceeds payable from the return of premium rider are not included in the gross income of the recipient. It creates a unique planning opportunity.

ERISA. I've been in the benefit arena for a long time and I have discovered one unique feature provided in the Tax Law for Long Term Care Insurance. Although it is considered health insurance, the current law exempts it from ERISA and COBRA.

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This feature provides a giant windfall for our business clients. We have the opportunity to sell them a health care product that is fully deductible. Yet, in the process, allow us to cover employers, key people, owners and their spouses without ERISA testing. In other words, we are allowed to create tax qualified Long Term Care plans to cover select business people without being subject to non-discrimination requirements.

In addition, we could offer within an employer, two, three, four, or five different benefit levels and planning opportunities. It's a marvelous opportunity. Many of your clients will benefit from the information shared here today.

So the key question is what is the tax treatment of premiums paid? For a C Corporation, 100% of the premium is deductible for the W-2 employees and for any employees that currently receive post-retirement health care; employers are allowed to also provide post-retirement funding of Long Term Care Insurance.

The actual deduction is very limited for the owners of an S Corps, LLCs, Partnerships and Proprietorships. It is 100% of something called an "Aged Based Premium." However, premiums for policies purchased on non-owner employees are entirely deductible. The amount of this year's deductible premium for a person aged 56 is \$1020 above the line. In other words, only owners are penalized in this process.

As for a Partnership, LLC and S-Corporation, the cost of the plan is fully deductible. On the K1, all premiums paid are added to compensation. A deduction of \$1020 is allowed for the each of the 56 year the partner and spouse, LLC Member and spouse, S-Corp. Shareholder and spouse. It is an above-the-line deduction. It does not have to be carried to the tax return and itemized as a medical expense. This is a real deduction!

Much of my work is done on a joint basis with other agents throughout the country. The key executive will now have health insurance and the premium is deductible under 162. The premium paid is not taxable to the executive and we can provide benefits of up to \$240 a day. We don't stop there. We provide maximum benefits and

go to maximum levels of care. Depending on the carrier, that can be \$300 a day or \$400 a day. For example, an insured person can receive up to \$240 a day in benefits without justifying the amount of money he receives. If his expenses are greater, he can receive additional benefits up to the expenses incurred for care, all tax free.

We buy these clients maximum benefits. No imputed income tax to them. The insured and spouse have protection for a lifetime and at death, the named beneficiary receives the entire premium paid by the employer for the policy. Those premiums are returned in a lump sum, not reduced by claims. This creates a wealth and capital planning opportunity. I would like to talk about those opportunities.

Let's talk about capital transfer with the perfect Long Term Care insurance policy. The reason most Life Insurance Agents don't expand into the Long Term Care business is because they don't want to learn it. It's too complicated. All this talk about daily limits, elimination periods, benefit periods, comprehensive care, home health care. It just goes on and on and is very confusing for the agent. About 90% of the meeting time with a potential client is spent on designing the Long Term Care plan that will work for the client. Yet, the plan tends to be wrong almost every time.

I only use one policy design model and it works like this. I sell a lifetime protection plan. I don't care how old they are, how healthy or unhealthy they are, it is a Lifetime protection plan. When they die, the policy stops. That's it: a Limited Pay Plan policy that says we're going to pay for the entire cost of the plan in a short period of time. Why do I want that? Because most of the clients want the policy to be paid up before they retire; and none of us can be certain that the insurance carriers will not raise these rates and expose the clients to more cost.

We always add a compound inflation rider that says the policy will grow 5 percent a year forever. That's a very simple but valuable benefit. If you sell a 50-year-old client a \$300 a day benefit today, most of these insurance agents act like the insured person is going to claim it tomorrow. He's not. He's going to claim it 30 years from now. He

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will be 80 when he makes his first claim and what will my \$300 a day benefit be worth? It's easy, \$1200 a day. It's going to double every 15 years. He'll have \$1200. He'll have \$36,000 a month. He'll have nearly ½ million a year in benefits when he is ready to claim those benefits and the coverage just keeps growing.

I don't talk to people about how much they need and for how long. We want people to know that when they're ready for this care, they can wake up, pick up the phone and have that care come to their door. And they will be treated the way they've always been treated. I try to teach people that wealthy folks and successful business owners will own these insurance policies, if they're taught the proper way to buy them.

One agent told me that wealthy and successful business owners wouldn't buy it. I always say they won't need to; we'll give it to them. It's free. They're going to take a corporate tax deduction and we're going to give the money back. It's free. Care provided in any setting. We do comprehensive plans. When people need care, we're going to pay for it. They can choose. I don't care where they want to use their care dollars. Most of the people I sell to will use their care dollars in their own home. There may come a time when they do want to go to assisted living, because they get lonely. Believe it or not that happens. And we'll pay for the care setting of choice for our clients.

Benefits paid also receive favorable tax treatment. We already know that. Congress is not going to eliminate that portion of the law. They're going to encourage people to have these tax-free benefits.

The return of premium feature can be used to reduce Retained Earnings. Do any of you have clients with Retained Earnings? This LTC planning will allow for business tax strategies. We're going to transfer money, lots of it for your clients.

The average Long Term Care policy in this country sells for about \$3200 a year. We're going to go a different direction. The bottom line here is \$85,000 for a Male 55 and a female 53. The policy is designed exactly the way we discussed earlier. Starting with zero day elimination.

Lifetime monthly benefits based on \$300 a day. Home health care benefit included and the plan is protected against inflation with a guarantee for full return of premiums and premium waiver for both policies if either spouse needs care

When I visit with accountants or an attorney for potential clients, they always ask me what the bottom line is to provide such benefits to their clients and their future liability. For a few dollars more, the carrier I represent allows me to guarantee that the premium will not change during the premium pay-in period. So this 10-pay is a true, non-cancelable, guaranteed renewable 10-pay that says, "Mr. Accountant, your client's are going to pay me \$85,000 a year, each year for the next 10 years." We'll move \$850,000 from his business on his behalf. We're going to pay it up, and provide care for a lifetime. The policy will function and perform when your client needs it and the corporation will pay the premium.

There was a young agent in Colorado. The first time he heard me speak on this subject, he jumped up and asked, "Hey Pete, I have this client who's doing really well. If I went to him and showed him this, how should I explain it?" I told the agent that the best way to share this concept was to ask his client this question, "How much money would you give me today from your corporation, if it were fully tax deductible and the day you died, I'd give all of the money you paid me back to your children?"

And he said, "Peter, what about the Long Term Care insurance?" I said, "You really don't need to talk about it until you're all done because he's going to be more focused on the tax deduction than he would ever be focused on the Long Term Care." There's a lot of truth in this message, I promise you. You'll find that out when you visit your clients. By the way, he made that sale. It was his first of many LTC sales.

Let's talk about capital transfer opportunities for key employees. I design these policies the same way for everyone. That's why I say to you, if you want to learn about designing Long Term Care Insurance, just follow the five step process to the perfect policy and you will have all you need to learn about Long Term Care policy design.

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This planning strategy is going to work the same way. We're designing protection for this key man and we're going to create some golden handcuffs for him. That's power play #1. I visited with the owner of a Property/Casualty agency. I have done a lot of work with Property/Casualty agents. These are great people to work with. They have marvelous relationships with their clients. And they're very accustomed to collecting large premiums. So when I work on joint cases with them, they're never troubled by the size of the premiums.

This P/C agent took me on a sales call where we visited with a business owner who had voiced an interest in doing something special for his Key-Man sales person. It was a manufacturing plant and the key salesperson kept the entire business going. The activities of everyone else revolved around this Key- person's sales activities. The business owner wanted to be certain his sales rep would stay for at least 10 more years. His question was, "Is there anything we could talk about that would keep this sales person around?"

I said yes, we have an opportunity. This salesman was aged 55 and his wife was 53. I suggested that the company offer to put aside \$85,000 a year for him, each year for the next 10 years. If he stayed with the company, the plan would be vested for the Key Man at the end of the 10<sup>th</sup> year. The key person would then become the owner of the Long Term Care policy. His family would receive the \$850,000 at his death and the company would have retained a loyal key employee. In the event that the employee or his spouse trigger benefits during the 10-year premium-paying period, the policy ownership would immediately be vested for him.

This fellow thought that it was a really good proposal and said that it was a heck of a concept. What's more, the company would get a tax deduction for the premiums paid. The employer could also create a split dollar opportunity by allowing the employee to share in the premium payments. I had suggested that the total policy costs would work out to be about \$51,000. The return of premium costs would be about \$34,000. If he wanted to make the employee happy with the program, the employer could

pay the \$51,000 and the employee could pay the balance of \$34,000. Only the employer would get a deduction. However, by putting up the \$34,000 each year for 10 years, the employee would own all \$850,000. And that's how we sold this case.

So, there are some real opportunities in the, I am happy to say it, Split Dollar Long Term Care arena. We don't have to deal with issues like PS58, or uniform premium tables because we're dealing with health insurance arena. Thus, it gives you a new opportunity to talk about benefit planning.

Another concern we visit with clients about, is the Employee Disability Income Supplement. I would meet people who are in their late 50s and early 60s who still had tons of Disability Income insurance but were concerned that their plan would never provide a benefit for them.

So, I got to thinking about this concern. I designed a plan that would supplement or replace their Disability Income limited benefit plan and provide coverage for their spouse also. Their Disability Income coverage would normally pay a benefit that stopped at age 65. We can replace that and in the process, facilitate some estate planning with business dollars at the same time for these clients.

One of the cases we closed was for a 59-year-old business owner and his 58-year-old wife. He's the guy who was concerned that he would lose all the premiums paid into his Disability Plan without benefiting. I suggested a new planning process that would allow him to swap his current DI policy for a Long Term Care policy. The difference would be our ability to cover both him and his wife with this plan.

What's more, the plan would not be cancelled when he turned age 65. It would only stop upon death. It would pay for his care over a lifetime and the amount would not be based on his income. It would be based on real needs and the money paid would be tax-free. The premium would cost his firm \$102,000 a year for 10 years. In other words, we would be transferring \$1,020,000 from his company to be parked at the insurance company. When he passes away, all proceeds would be returned to his heirs.

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The business owner looked at my proposal based on a 10-Pay plan and said, "I'm only going to be here for 6 more years. Can you fix that problem for me?" I replied that we could do a couple of things. We could price out a 5-Year pay plan. However, I asked him what would happen to the business when he leaves. He said that he would be selling it to his sons. Thus, I suggested that he could enter into an agreement with his sons to provide post-retirement health care for him. In other words, the company would continue to pay the premium and this could be subtracted from the purchase price of the business. That way they could get a tax deduction while he would still get the money.

We ran the proposal by his accountants. They decided to create up a Post-Retirement Health Agreement in advance of his retirement. That's how this particular case was sold. But again, we're locking up the premiums on these guarantees.

The three things that I think are very important are that we have these limited pays, we have these guarantees and we have these forms that allow us to name owners, premium payers, beneficiaries and insurers. You can do valuable planning using these concepts.

Let me share another concept. "CHARITABLE GIVING, THE NEW-FASHIONED WAY." So much of my work is done on the road, with agents who have great clients, but absolutely no understanding of Long Term Care. So I created this marketing opportunity using the same policy design format I always employ when creating plans for clients. The corporation pays the premium. We have a lifetime protection with 5% growth. Premiums paid are not reported on the W-2. Care is provided in any setting. Benefits paid receive favorable tax treatment. But at death, the return of premium is paid to the client's favorite charity, creating an estate tax and income tax free transfer.

I did some work in Ohio. An agent took me on five sales calls in one day. Our third sales call was made to a business owner of a giant dealership. He was 63 years old, single and did not have heirs. We talked to him about Long Term Care insurance. I asked him how his business was formed and taxed? It was a C Corporation and he was a W-2 employee of the company. The corporation

employed about 350 people. I proposed that the company purchase a fully tax deductible benefit for him. No part of the premium paid would be reported on his W-2. He would be covered for a lifetime of care and the plan would have unlimited benefits that would grow by 5% a year for the rest of his life. The benefits would be paid to him when he needed to receive this care. To top it all, upon his death, all the money paid by his corporation for the plan would be returned to his favorite charity if he so desired. When the business owner heard this, he looked past me and starred at the agent who brought me, and he asked whether this was true. The agent didn't have a clue about the correct answer. So the agent replied by saying, "If Pete says it's true, it's true." The agent went on to tell his client that he had brought me to this meeting because I am a national expert on Long Term Care Insurance. The case was closed and the paperwork was completed the next day.

I asked a question of a director in the planned giving department at M. D. Anderson Hospital over lunch and was told that thousands of people name the hospital in their wills to receive benefits. However, many of those wills are changed before the donor dies by people wanting to keep those dollars for their own use. So, I proposed a way to protect these contributions and ensure that the hospital remained irrevocably named as a recipient of proceeds earmarked for it in all of those wills. In other words, no lawyer, greedy kid or any other circumstances would change the intent of the donor.

There's a great opportunity in this market and I see it in this illustration. This was a 5-pay plan. We wrote this plan for \$170,000 a year with a five-year total of \$850,000 in premiums. There are many more such opportunities to provide for capital transfer, golden parachute and estate planning with return of premium. Once again we design plans that work. It's the same policy every time. It's the most you could possibly buy. If I need to reduce the premium a little bit, I would extend the elimination period and/ or reduce the daily benefit. Everything else remains in place.

So for those of you who are not currently in the LTC business, but want to be, here is a good way to start out.



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You don't have to worry about all of that education on policy design and insurance language. Just identify clients who could use some help with their business planning and discuss the possibility of providing a Golden Parachute for them. We can reduce retained earnings and create substantial tax deductions for the owners and employees. We can change the values of the business to facilitate a sale at a favorable purchase price. Did you ever meet a business owner, who wanted to sell his business, but he had so much cash in it, he couldn't? We do. They don't want to distribute the money because they will have to pay tax on it. They do not know how to get that cash out of their business on a tax favored basis.

We can do some estate planning with a Generation Skipping Trust or other favorable planning tools. Let me show how this works. Again, an agent took me on a call. The Business owner was 66 years old and his wife was 63. We walked into the business and the owner's office. It was a beautiful office space. Great looking cars out front. Good-looking people were working everywhere. We walked through the door and the agent said to his client, "Hi, this is Pete." I said, "Hi, how are you doing?" The owner said, "Not too good." I asked him why and he explained, "You passed two guys on the way in my office just now. Those are my sons. They get here about 9:30 in the morning and leave at 11 for lunch. Come back about 1:30 and leave at 4:00 to go play golf. They want me to retire and sell this business to them."

I could see by the look on the father's face there was a very definite concern. It was a serious concern to him. So I inquired about the business and was told that the business was doing exceptional. I asked whether the business had some retained earnings, some money that we could use for a purpose. He asked me what I had in mind. I then asked him whether he had any grandchildren and he did. He had three grandchildren whom he loved very much and would do anything for them.

I suggested that there was something that he could do for his grandchildren. I proposed that some of the retained earnings be repositioned from the company and parked some place very safe. In the process, we would provide life-

time care for him and his wife, because it didn't look to me like they would want to rely on their sons to take care of them after retirement. We would guarantee quality care for both of them in the future. Upon death, all of the money that was tax deducted by his company for these plans, which by the way, would amount to about \$1,000,000 in a single premium, would be given to their grandchildren by way of a Generation Skipping Trust. We would bypass his sons. The business owner then asked me to sit down and provide the details of this planning for him.

There are a lot of single premium cases being written. Although the accountants may fight with you, they are still being written. I helped write the largest single premium ever written. The total premium was for 1.2 million dollars.

I go on calls with lots of agents who don't understand Long Term Care Insurance, but they know about Advanced Planning strategies using Life Insurance. You people are the ones who can make this transition. Take all you know about advanced planning using life insurance and move it this direction. It's not some kind of weird science. It's a fact that in August 1996, Congress passed the tax law that created Tax Qualified Long Term Care insurance and gave the product the opportunity to be powerful.

Now the insurance industry doesn't know that, because they're focused on Medicare, Medicaid, nursing home expenses and the financial concerns of the elderly. Those issues have never been my focus for the sale of Long Term Care Insurance. Never!

I look at this as an opportunity to help people help themselves. Nobody's going to be mad at you for giving them the opportunity to own one of these policies. I am talking about giving it to them. They're not paying for it. There will be nothing to report in the way of a taxable event.

In my work I also talk about doing things that others do not. When I was a kid growing up, my dad was in the Union. He was a meat cutter. I remember he used to say they put money from his paycheck into the health and welfare benefit plan. And every Union had them. Later, I found out that those dollars went to his union's health benefit plan trusts under the Welfare Benefit Plan rules.

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When I came into the Long Term Care insurance industry, I realized that I was at a distinct disadvantage with my clients who own S Corps, LLCs and Partnerships.

93% percent of the businesses in this country are taxed as Partnerships, LLCs and S Corps, and I can't do a darn thing for them, except give a 56 year old person a \$1020 above the line deduction on the front on their Form 1040. They're not going to buy an \$85,000 premium plan from me and say, "Thank you, Peter", unless I can get them a deduction for the entire cost of the policy.

In July of 2003, Congress passed some final Regulations pertaining to IRC Section 419. I know that many of you think that's treading on thin ice, but let me assure you, there are no concerns about Long Term Care in the 419. As a matter of fact, the verbiage addresses the fact that 419 Plans can provide Long Term Care insurance as a pre-tax health care benefit.

I am working with a plan administrator, making sure that I can now deliver what Congress said I could. That's Long Term Care through a 419e Plan. It's a giant opportunity for you and for your clients.

There are other opportunities I've talked about in the past, such as tax-free and penalty free distributions from Qualified Plans. I'm amazed at the number of people who don't know that you can do more with a Qualified Plan than what is being done.

I visited with a law firm in California. It was a 200-partner law firm. Great office. I mean it was a nice environment. When I walked in with the agent who brought me, the lawyer we were there to see told me that he could only spare about 12 – 15 minutes for me to tell him why we were there. So I gave him the short version of my power selling points. He sat back and asked me to take it from the top and I could take all the time I needed. That law firm had 200 partners. Half of them were north of 50 and half were south of 50. The guys south of 50 would not allow the guys north of 50 to buy Long Term Care insurance with company funds. They refused to pay for it but the older partners wanted it. So he asked me for a solution.

I proposed that they use their tax qualified 401K plan

because this plan allowed individual participants to select various options. If the plan document allowed for incidental benefits, they could have this coverage included. I asked them whether they had written their own plan document and was told that they did and it could be amended. I also asked them whether their Qualified Plans included incidental benefits. He said that there was life insurance coverage included.

I informed him that incidental benefits were defined as life and/or health insurance. Usually, nobody puts health insurance in their Qualified Plan, because they already have group medical insurance. However, I explained that LTC Insurance was considered health insurance and could be an additional optional benefit in their 401K plan. Thus, they could use that over-funded plan that they disliked so much, to buy their Long Term Care insurance.

There are some powerful planning opportunities out there but the focus has to be on how you can help people. I like the idea of providing post-retirement health care. I think you're going to find a lot of companies out there with previous owners still affiliated with the firm, even though they have sold out. There's an affinity there. We can provide post-retirement health care for them, through Long Term Care insurance. If there's someone you've known for years and done lots of work for, now you can go back and bring this valuable planning idea.

The giant problem we have with Long Term Care insurance is the really tough underwriting to get a plan issued. It's not like life insurance. With Life Insurance, if some one has medical problems, the carrier will charge a higher premium and say that is the premium needed to insure the person. There's a monetary answer to the underwriting problem. It doesn't work that way with Long Term Care insurance.

So I decided long, long ago that my clients would be between the ages of 40 and 60. In most cases, they would be fairly healthy and we would get this coverage issued before there were health problems. You will be amazed at the number of people who would welcome the opportunity to have this coverage while they're still able to qualify for it.