Wealth of Insight

ROCKLAND TRUST

Investment Management Group

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Long-Term Care Plans and Tax Saving Strategies

By Jack Gates, Vice President and Advanced Insurance Specialist

Will I have enough income to last a lifetime? Will my family be financially secure if something were to happen to me? These are the questions that keep us up at night. We feel an immense responsibility to support and protect the people in our lives who matter most. As an Advanced Insurance Specialist, one area I focus on is helping our investment professionals answer those questions with special attention to the possibility of a long-term care (LTC) event. Having a LTC plan in place is one of the most important steps you can take toward a secure financial future for you and your family.

All too often, we see individuals who are using planning concepts that put their legacy goals in jeopardy. Without the help of an expert, you could be vulnerable to a premature termination of life insurance and leave your loved ones dealing with significant tax consequences. In order to illustrate some of our planning techniques, I'd like to share a story about a couple in their late 60s I worked with earlier this year. This couple has three grown children and six grandchildren. They wanted to make sure their income could sustain a LTC event and that it wouldn't impact their ability to leave a legacy for their children and grandchildren. After listening to the couple's needs and long-term goals, we were ready to review their existing policies and investment accounts.

We found significant tax implications for the children in both the IRA and annuity. We also found issues with their existing life insurance policy, including termination of their life policy prior to life expectancy, and additional tax implications.

The Couple's Financial Profile	
Approximate Net Worth	**$5,500,000**
IRAs	$1,500,000
Annuity (basis of $200,000)	$600,000
Brokerage	$2,500,000
Residence	$900,000
Universal Life Insurance Policy	$500,000
Cash Value	$40,000
Annual Premium	$2,000

Tax Implications Identified

Eventual Income Tax on IRA Assets The IRA assets would pass to the spouse tax free, but for their children, the assets would be taxed as income. Although the children would have the option of stretching the IRA over their lifetime by taking a small amount of income from the IRA for life, we often see the beneficiaries take the lump sum and incur the tax.

Income Tax on Annuity Assets It's not well publicized that annuities DO NOT enjoy the same step up in basis at death as other investment and real estate assets. In this case, the basis is $200,000 and the current value is $600,000 which creates $400,000 taxable as income to their children.

State of Massachusetts Death Tax At this time, the couple is below the federal estate tax level, but living in Massachusetts they are exposed to the state death tax for assets over $1,000,000 each ($2,000,000 combined). At a net worth of $5,500,000, this would roughly calculate to a state death tax of $420,000.

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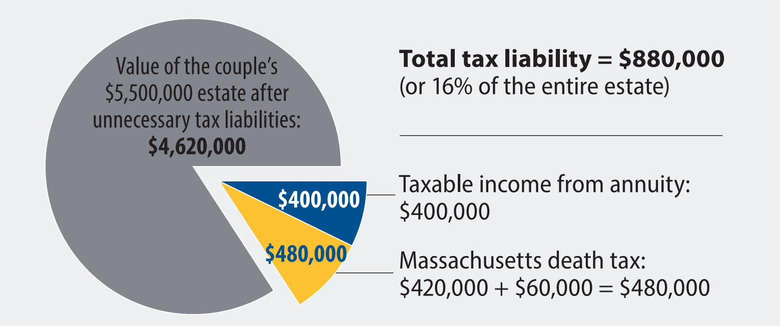
Issues with the Policy

Life Policy will LAPSE Before Life Expectancy Many old life policies have not been able to withstand the prolonged low interest rate environment and are in jeopardy of lapsing before normal life expectancy, even if the policy holder continues to pay the premium. The problem is that the insurance carriers aren't telling the policy owner until it's too late. I cannot stress enough the importance of regularly reviewing existing life insurance contracts.

Disadvantage of Personally Owned Life Insurance The existing life policy was owned by the husband and would add to the taxable estate. This would cause an additional unnecessary state death tax of around $60,000.

Tax implications for the children



We determined that, although the couple would have sufficient means of paying for a LTC event with their existing accounts, selling assets to cover the cost each month would create taxable gains (or income tax if using IRA assets) which would severely impact their ability to achieve their legacy goals. However, the couple was satisfied to learn that with the proper planning techniques, they could cover the LTC need while maintaining a successful transfer of their estate with minimal tax implications.

After careful consideration of the client's income needs, we were able to create a comprehensive plan.

- The annuity is no longer necessary for income purposes and is now considered a legacy asset. Because annuities are not very good assets to die with, due to the lack of a step up in basis, we decided to reposition this asset through annuitizing, which provided a lifetime income of about $36,000 annually.
- With that $36,000 income, the couple's attorney set up an Irrevocable Life Insurance Trust (ILIT) and they will gift it to the trust annually. The $36,000 gift is being used to purchase a second-to-die life insurance policy with a death benefit of $1,400,000 which included a LTC rider.

  The LTC rider creates a bucket of $700,000 for each insured and allows the "owner" to accelerate this death benefit at a rate of $14,000 per month for 50 months tax free for each insured if desired. This is a very tax efficient way of covering the LTC needs of each insured and can be owned by an ILIT when structured properly. The result was to turn a $600,000 Annuity with a net after tax value of $460,000, into a $1,400,000 tax free asset held outside the estate while creating a plan for LTC coverage.
- After a careful review of the existing life insurance policy, provisions in the policy showed that it would lapse at age 81. Since the death benefit was not necessarily needed at first death, we decided to gift the $2,000 annual premium and the $40,000 in cash value to the ILIT and add it to the second-to-die policy (explained above) which increased the death benefit to $1,600,000 with the LTC rider. There are no tax consequences due to the fact there was no gain in the existing life policy.

The overall results of our planning exercise created a tax free asset held outside of the estate to cover the transfer costs, ultimately maximizing the couple's ability to reach their legacy goals. We also created a tax efficient plan to cover any potential long-term care costs. The plan will give the children more options when they inherit the IRA; some may want to cash out the IRA while others may wish to take advantage of the lifetime stretch option. The ability to reposition assets and take advantage of the benefits of life insurance with a LTC rider enables the client to cover multiple contingencies with a single contract.

As insurance and investment professionals, the best thing we can do for our clients is provide them with peace of mind. Our expertise enables us to create plans for estates of any size estate and complexity. Creating a multi-faceted plan, like the one I've just described, requires experience and proper fact finding. It also takes a team. Once we understand the client's goals, we're ready to work with their legal and accounting advisors to make sure that, in the event of any situation, our clients are still able to meet their goals and protect the people who matter most.

For questions regarding your personal or business insurance needs, please contact:
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Rockland Trust Investment Management Group's Growing Team of Investment Professionals

Jack Gates

Vice President, Advanced Insurance Specialist

Jack Gates serves as Advanced Insurance Specialist for Rockland Trust Company, providing Advanced Planning Strategies and Insurance Advisory Services for high net worth clients, corporate executives, multi-generational families, and business owners. Jack focuses on estate and legacy planning, business succession planning, buy/sell agreements, charitable and family gifting, executive benefits, and supplemental retirement planning. With over 29 years of experience in the financial services industry, Jack has been providing financial advisors, family offices, CPAs, attorneys, and banks innovative solutions to the complex needs of their affluent families and business owner clients.

Bill Mahoney, CFP®

Vice President and Financial Consultant

Bill Mahoney is a Vice President and Financial Consultant with Rockland Trust Financial Services and is responsible for developing and maintaining investment management, retirement plan and insurance business throughout the Metro West region and Providence. He returns to Rockland Trust after working as a Wealth Management Advisor with TIAA's Individual Advisory Service which serves the firm's high net worth individuals and families. Bill maintains offices in Franklin and Providence. He has been in the financial planning industry for 20 years and has held trust officer, business development, and financial advisory positions with American Express, TIAA and Rockland Trust. In addition to his Massachusetts and Rhode Island Life and Health Insurance licenses, Bill is a CERTIFIED FINANCIAL PLANNER™ practitioner. He also holds FINRA series 7, 63, and 65 registrations with LPL Financial.

Catherine Valega, CFP®

Vice President and Financial Consultant

Catherine Valega brings over 20 years of experience within many aspects of the financial services industry. At Rockland Trust, Catherine's main focus is meeting the wealth management needs of individuals, families, businesses, and non-profits in the Boston/Metro North area. Prior to joining Rockland Trust, Catherine worked as a Relationship Manager with TD Private Client Wealth and was a Financial Advisor with LPL Financial. Catherine received a B.A. in Economics from the University of Pennsylvania and a Master's degree in International Relations from Johns Hopkins. In addition to holding a CAIA designation and Life Insurance licenses, Catherine is a CERTIFIED FINANCIAL PLANNER™ practitioner. She also holds FINRA series 7, 63, and 66 with LPL Financial.

Our team has over 60 investment professionals. Many of these individuals hold professional designations, including: 9 CFAs, 15 CFP®s, and 10 CTFAs.

Rockland Trust Investment Management Group Surpasses Three Billion in Assets

In March, our Investment Management Group surpassed $3 billion in assets under administration. This was a significant milestone for the bank and for our team. When I joined Rockland Trust in 2003, our Investment Management Group had $480 million in client assets. This recent achievement serves as a testament to our great team of professionals and the Bank's growth both organically, and by expansion through acquisitions, over the last decade.

Client relationships are the foundation of everything we do at Rockland Trust, and that is particularly true in the counsel we provide to our investment management clients. I want to thank each of you for your loyalty and your trust over the years.

David B. Smith, CFA

Chief Investment Officer and Managing Director
Rockland Trust Investment Management Group

Boston Business Journal
THE LIST

Rockland Trust Investment Management Group was pleased to appear again as one of the **25 largest independent investment advisers in Massachusetts** in the *Boston Business Journal*'s annual ranking. Based on total assets as of June 1, 2017, Rockland Trust ranked 24th on list.

To learn more or to view additional articles and interviews featuring our investment management professionals, please visit **RocklandTrust.com/news-and-events**.

For more information about investing, go to **RocklandTrust.com** or visit one of our Investment Management Group locations:

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