HIGHLAND
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5 Reasons Why Traditional LTCI May Be a Good Fit

Does your client own Long-Term Care Insurance (LTCI) or are they considering purchasing a plan? Then, they need to know about the important tax advantages of LTCI. A surprising number of policyholders have the ability to deduct premiums, and those insured also find that the amount of premium that can be deducted increases each year. A big reason is that more and more buyers of LTCI also own Health Savings Accounts (HSA) and can pay premiums with pre-tax dollars.

It's important to understand that when we are talking about the tax-advantages, we are talking about "tax-qualified" LTCI. Tax qualified LTCI was codified by the IRS in 1996 as part of the original HIPAA legislation. Under section 7702B, long-term care plans that meet certain requirements are considered tax-qualified. Almost 100% of current standalone LTCI sold are tax-qualified, and many riders on life insurance plans are tax-qualified as well. Here are some of the good things that are possible with tax-qualified LTCI:

Benefits are received tax-free

Actual long-term care expenses reimbursed by a LTCI plan are tax free to the policyholder with no daily limit. For those who own "cash" long-term care plans, any additional non-medical benefit above $360 daily would be taxed like income. However, this $360 "per diem" limit also typically increases each year.

1. **Employers can deduct premiums like health insurance.** If a C-Corporation is buying coverage, they can deduct 100% of premiums paid. Self-employed, 2% owners of S-Corporations, and partners of partnerships can also deduct long-term care premiums paid by their companies up to certain age based level. They can also deduct premiums for spouses as well.

2. **Individuals** can only deduct premiums up to age based limits to the extent they exceed 10% of adjusted gross income as premiums are considered medical expenses.

3. **People with HSAs** can pay premiums with funds from their account. Since long-term care is not available as a pre-tax cafeteria benefit, using HSA funds works great for voluntary employer offerings in which the insurer bills the employee directly and then the employee directs the HSA to pay the insurance company for premiums.

4. **1035 Exchanges** allows holders of life insurance and non-qualified annuities to exchange all or a portion of their contracts for LTCI. For example, someone could use these rules to purchase a single premium life/long-term care plan, which can result in tax-free benefits.

5. **Certain states offer state tax incentives.** As an example, New York offers a 20% credit for premiums paid during the taxable year for qualified LTCI.