The Tax Benefits of Long-Term Care Insurance

Mutual of Omaha Advanced Markets

Disclaimer

This presentation represents our understanding of the federal tax laws as currently interpreted. Mutual of Omaha, United of Omaha and their agents do not offer tax or legal advice. Seminar participants should encourage their clients to seek specific advice regarding legal and tax matters from qualified advisors.

HIPAA

- Long-term care insurance is treated as tax free accident and health insurance.
- Tax benefits are available to employers.
- The Act became effective January 1, 1997.
- Policies in compliance with state laws issued prior to this date received special grandfathered treatment.

Deduction of LTCi Premiums

It depends on who you are…

- Individual
- Business Owner
  - other than C corporation
- Employee

Eligible Premiums

2024

• Age 40 or less	$ 470
• Age 41-50	$ 880
• Age 51-60	$ 1,760
• Age 61-70	$ 4,710
• Age 71 and over	$ 5,880

Data is for 2024 and is subject to annual inflation adjustments

Tax Treatment for Individuals

Individuals may deduct premiums as follows:

- Qualified LTCi premiums, combined with other un-reimbursed medical expenses, are deductible to the extent they exceed 7.50% of the taxpayer's AGI

- Must itemize deductions (Schedule A, Form 1040)

- May deduct an amount up to the eligible premium

Tax Cuts and Jobs Act of 2017

- Increased standard deduction for all filers
- Eliminated personal exemptions for all filers
- According to the Joint Committee on Taxation 9 in 10 filers use the standard deduction
- Scheduled to sunset at the end of 2025

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Business Entities

- Self Employed
- C Corporations

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Tax Treatment for Self Employed

Who is self employed?

- Individuals who are sole proprietors, general partners, LLC members (when not taxed like a C corporation) and have net earnings from self employment
- S Corporation (> 2%) shareholders, although ordinarily treated as employees, are treated as self-employed when in relation to fringe benefits

Tax Treatment for Self Employed

Premiums for self-employed individuals:

- Treated as self employed health insurance premium
  - ➢ Premium is treated as income paid to the self-employed owner
- Deductible up to the eligible premium amount
  - ➢ Schedule 1 (Other Adjustments to Income) Line 17 – Self-employed health insurance deduction
  - ➢ Carried over to 1040 line 10 as a deduction

C Corporations

Actual premium is deductible for:

- Shareholders who are employees
- Shareholder/employee’s spouse and dependents

LTCi Can Be Carved Out for Executives

- Employers can carve-out a class of employees to offer LTCI
- Employers should work with counsel to ensure they comply with any applicable state and federal laws

Tax Treatment for Employees of any Business Type

The best tax treatment of the three:

- Business may deduct the actual premiums paid for the employee, employee’s spouse and employee’s dependents

- The employee is not required to include these amounts in income

- No out-of-pocket cost to employees usually

Taxation of LTCi Benefits

Qualified LTC insurance benefits are tax free to the extent they do not exceed the greater of:

- Qualified long-term care expenses
- Per diem amount ($410 in 2024)

Other Tax Considerations

Can you pay eligible LTCi premiums from a health savings account (HSA)?

YES

Can you pay eligible LTCi premiums from a medical savings account (MSA)?

YES

Can you pay eligible LTCi premiums from a health reimbursement account (HRA)?

YES

Other Tax Considerations

Can you pay eligible LTCi premiums from a flexible spending account (FSA)?

No

Can you pay eligible LTCi premiums from a cafeteria (125) plan?

No

1035 Exchanges

- Can do a 1035 exchange from a life or annuity contract into a stand alone LTCi policy?
  - Not all carriers allow this
- Law allows for tax-free exchange from a life insurance policy into a life or annuity policy with LTC benefits or annuity policy into a new annuity policy that includes LTC benefits

Return of Premium

Any refund on a complete surrender or cancellation of the contract shall be includible in gross income to the extent that any deduction or exclusion was allowable with respect to the premiums.

Gifting

Medical Care Gift Tax Exclusion

- Unlimited so long as paid directly to provider
- Only eligible premiums qualify

State Tax Incentives

- Some states provide a deduction or tax credit for premiums for qualified long-term care insurance policies

And Speaking of States…

- Washington State LTC program
- Tax been collected since July 2023
- Claims could start in 2025
- Are other states watching?

SECURE 2.0 and LTCi

- Effective December 29, 2025, retirement plans can distribute up to $2500 per year for certain LTCi premiums.
- Distributions are exempt from the 10% penalty.
- Policy must provide “high quality coverage.” No guidance yet on what that means.

Another great tax benefit:

- Distributions from Retired Public Safety Employee Retirement Plans (up to $3,000) may be used to purchase long-term care insurance, for the retiree, spouse or dependents

- An "eligible retired public safety officer" is an individual serving in a public agency in an official capacity, with or without compensation, as a law enforcement officer, firefighter, chaplain, rescue squad worker or ambulance crew member

- After December 29, 2022 don't have to be paid directly to insurance carrier!

Partnership Program

- For tax-qualified policies that are Partnership Program qualified help clients protect assets

- Every dollar of LTCi benefits paid protects that amount in personal assets and still qualify for Medicaid (after exhausting policy benefits)

Sales Ideas – Tax Benefits of LTCi

1. C Corp = LTC discussion – better tax advantages
   - Will there be more C corps after 2025 if 199A sunsets?
2. If business owner talks about how hard it is to find and keep good employees…LTCi is a selective benefit without personal taxation
3. "I don't itemize so I don't get the deduction." Then your ROP will be tax free!
4. SPIA to fund a lifetime pay LTCi policy, for those who:
   1. Want a lump sum or short pay
   2. Have a life or annuity policy they don't think they need
   3. Have a gain in a life or annuity policy (1035 into a SPIA)

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