

## **Factoring Taxes into Long-Term Care Insurance Choices**

As millions of baby boomers in the United States approach old age, experts predict the number of people in need of long-term care will double over the next 30 years.

Some statistics show that one in every five people who reach the age of 65 will eventually require some form of long-term care. Fortunately, aging consumers can plan ahead by purchasing long-term care insurance (LTCI), which helps to cover many long-term care expenses.

Although purchasing LTCI is a smart choice, you may want to think about a few tax issues before you sign on the dotted line. Take time to do a little research and find out whether your insurance premiums will be tax-deductible and if your benefits will be taxable.

### **Are your premium payments tax-deductible?**

The answer to this question depends on a few different factors. If your policy meets certain standards and is considered a "qualified policy" by the IRS, you may be able to deduct all or a portion of your LTCI premium payments.

But how do you know if your LTCI plan is a qualified policy? A policy must satisfy the following conditions to be considered as such:

- The LTCI policy must provide coverage only for qualified long-term care services, including essential preventative, diagnostic, therapeutic, treating, curing, mitigating and rehabilitative services. Qualified services also include maintenance and personal care services necessary for a chronically ill person as directed by a licensed health care practitioner.
- The policy must be "guaranteed renewable." This means you can renew or change your policy without being subjected to further medical testing.
- The policy cannot have a "cash surrender" value or any stipulation that enables you to cash in or borrow against the policy. It can offer you nothing more than a premium payment refund if you choose to cancel the policy.
- The policy must require that any refunds and dividends only be used to reduce future premiums or increase benefits.
- The policy cannot pay for any expenses that are reimbursed by Medicare unless Medicare is a secondary payer or the policy pays a specific daily amount.

### **How much can you deduct?**

If you determine that your LTCI policy is a qualified policy based on the rules above, you may be eligible for medical expense tax deduction. Of course, the next step is figuring out how much of your premiums is deductible.

First of all, your unreimbursed medical expenses, including LTCI premium payments, must surpass 7.5% of your adjusted gross income before you can qualify for a medical expense tax deduction. You can deduct only the amount of medical expenses that exceed 7.5% of your adjusted gross income.

So if your adjusted gross income is, say, \$100,000, your premiums and other medical expenses would have to top \$7,500 and only the amount spent above \$7,500 would be deductible.

Additionally, there is a cap on how much LTCI premium you can deduct each year. These limits, which are adjusted annually for inflation, depend on your age at the end of the year. Here are the deduction limit amounts for 2021:

- Age 40 or younger: \$450
- 41 through 50: \$850
- 51 through 60: \$1,690
- 61 through 70: \$4,520
- 71 or older: \$5,640

Also, many states offer deductions or credits for long-term care premiums as well, so be sure to ask your tax advisor whether you qualify.

### **Are your LTCI benefits taxable?**

As with anything else in the tax world, there's good news and bad news about LTCI taxes. The good news is that your LTCI premium payments may be tax-deductible. The bad news is that your LTCI benefits may be taxable.

Because a qualified LTCI policy is treated as an accident and health insurance contract, your LTCI benefits are typically tax-free. But if your LTCI plan is not considered a qualified policy or if your contract pays a set daily benefit amount (also known as a per diem payment), you may be taxed on all or some of these benefits.

Figuring out tax issues and implications associated with a specific LTCI policy is no easy task. Therefore, before you sign an LTCI contract, you may first want to call us to discuss it.

\*This material was created by Insurance Newsletters and authorized for use by Brown &  
Stromecki Agency  
###