

## Long Term Care Insurance

Forty-five percent of Americans will have to pay for some kind of long-term care services. Insurance could preserve your estate for your heirs, however it is expensive and chances are you won't need it.

Due to advances in medicine and a greater understanding of how we stay healthy, we're all living longer. Those over age 65 makeup the fastest growing segment of our society. Changes in families (more childless, one-child and step-families) and the increasing participation of women in the workforce, mean that the numbers of those available to provide informal care for aging baby boomers is decreasing.

Women experience greater longevity and accumulate fewer assets than their male counterparts, making it even more crucial for them to plan ahead for their own quality of care.

If a debilitating illness runs in your family, your odds of needing expensive long term care insurance increase. Do not buy unless you can afford a premium hike of 10% to 20% and can continue to make payments for 30 or so years. Money magazine suggests a person spend no more than 7% of your income on premiums. (Justin Martin, Long Term Care Insurance: When it Makes Sense, May 2008) If at any point you are unable to pay, you will likely be left with no coverage at all. Then the money would really have been wasted.

You may choose between a "tax qualified" long term care insurance policy and one that is "non-tax-qualified". Important differences were created by the Health Insurance Portability and Accountability Act (HIPAA).

Taxpayers may be able to deduct part of the premiums paid for qualified LTC coverage insuring themselves, their spouse or a dependent. I.R.C. secs 7702B(a)(4) and 213(d)(1). The part of each premium that may be deductible depends on the insured's attained age at the close of the taxable year and is indexed each year for inflation. I.R.C. S213(d)(10).

If the contract is a reimbursement policy, the entire benefit received is excluded from income as an expense incurred for medical care. I.R.C. SS7702B(a)(2) and 104(a)(3). If the contract is a per diem policy, the benefit received is added to any amounts received by chronically ill taxpayers as accelerated death benefits or viatical settlements. The aggregate exclusion for these items in 2008 is limited to \$270. I.R.C. SS7702B(d) and Revenue Procedure 2005-70;2005-47I.R.B.979.

Qualified Long Term Care (QLC) insurance contracts must satisfy rigorous requirements set forth in the tax law and elsewhere. Those requirements include mandatory contract provisions relating to renewal, nonforfeitability, cash value, loans, dividends, premium returns and integration with Medicare. Long term care insurance purchased prior to January 1, 1997 can be "grandfathered" or considered qualified, even though they may not meet all of the standards. To be qualified, policies must be labeled as tax qualified, must be **guaranteed renewable**, include a number of consumer protection provisions,

cover only qualified long-term care services, and generally **can provide only limited cash surrender values.**

### **Deduction for QLC Insurance Premiums**

Amounts paid for insurance that covers qualified long-term care services are treated as medical expenses up to specified dollar limits that vary with the age of the taxpayer as of the close of the tax year. For a taxpayer age 40 or younger, the 2008 limit will be \$310, over 40, but not more than 50, \$580, more than 50 but not more than 60, \$1,150, more than 60 but not more than 70, \$3,080, and more than 70, \$3,850.00.

### **Premiums paid by a self employed individual**

A self-employed individual may deduct QLC premiums as business expenses.

### **Comparison with nonqualified insurance**

An NLC insurance contract paying benefits for personal injuries or sickness normally will qualify as accident or health insurance(A&H insurance) . Deductible only to the extent of the insurer's reasonable estimate of the portion allocable to future medical expense reimbursements .

If taxpayer's employer pays the premiums, they are generally excludable in their entirety.

Benefits are entirely excludable if the taxpayer paid all the insurance premiums.

Includable to the extent attributable to employer premium payments that do not reimburse specific medical expenses includable if the employer paid all the premiums.

If an employer pays all the premiums under an A & H contract, gross income those benefit payments not reimbursing specific medical expenses.

If a medical professional says you need daily skilled care after you have been in the hospital for at least three days and you are receiving that care in a nursing home that is a Medicaid-certified skilled nursing facility. Medicare may cover up to 100 days of skilled nursing home care per benefit period when these conditions are met. After 20 days, beneficiaries must pay a co-insurance fee.

Whether you should buy a long term care insurance policy will depend on your age, health status, overall retirement goals, income and assets. If your only source of income is a Social Security benefit, you probably should not buy long term care insurance since you may not be able to afford the premium.

If you have a large amount of assets but don't want to use them to pay for long term care, you may want to buy a long-term care insurance policy.

If you already have health problems and you are likely to need long term care, you probably won't be able to buy a policy.

One "pooled benefit" covers more than one person such as a husband and wife, or two or more related adults. This type of benefit is sometimes called a "joint policy"

or a “joint benefit”. It usually has a total benefit that applies to all of the individuals covered by the policy.

Another kind of “pooled benefit” provides a total dollar amount that can be used for various long-term care services. You can combine benefits in ways that best meet your needs. You may choose to combine the benefit for home health care with the benefit for community based care instead of using the nursing home benefit.

## **Other Long-Term Care Insurance Policy Options You Might Choose**

### **Waiver of Premium**

Premium waiver lets you stop paying the premium once you are eligible for benefits and the insurance company has started to pay benefits.

### **Restoration of Benefits**

With this option, if you fully recover after a prior disability and go for a stated period without needing or receiving long term care services, the benefit goes back to the amount you first bought.

### **Premium Refund at Death**

This benefit pays your estate any premiums you paid minus any benefits the company paid.

### **Downgrades**

Most insurers let policyholders reduce their coverage if they have trouble paying the premium.

### **What Happens if You Can't Afford the Premiums Anymore?**

If, for whatever reason, you drop your coverage and you have a nonforfeiture benefit in your policy, you will receive some benefit value for the money you have paid into the policy.

### **Can You Renew Your Long Term Care Insurance Policy?**

Insurance companies can raise the premiums on their policies but only if they increase the premiums on all policies that are in the same state. If you bought a policy in a group setting and you leave the group, you may be able to keep your group coverage or convert it to an individual policy but you may pay more.

The average annual premiums for basic long term care insurance (\$100 daily benefit amount, four years of coverage, and a 20 day elimination period) that does not include a 5% compound inflation protection option were:

- \$300 for a 40 year old
- \$409 for a 50 year old
- \$1,002 for a 65 year old; and
- \$4,166 for a 79 year old.

The average annual premiums for the same policy with both the 5% compound inflation protection option and the nonforfeiture benefits option were:

- \$798 for a 40 year old
- \$1,087 for a 50 year old
- \$2,130 for a 65 year old; and
- \$7,000 for a 79 year old.\*

\*Health Insurance Association of America (HIAA) survey. "Research Findings: Long Term Care Insurance in 1998-1999" February 2002. Table 5. p. 26. "average Annual Premiums for Leading Long-Term Care Insurance Sellers in 1999."

When you buy a long-term care policy, think about how much your income is and how much you could afford to spend on a long-term care insurance policy now, what your future income and living expenses are, and how much premium you can pay then. Can you afford a rate increase on your policy some time in the future?

You should **CONSIDER** buying Long-Term Care Insurance if:

- You have significant assets and income.
- You want to protect some of your assets and income.
- You can pay premiums, including possible premium increases, without financial difficulty.
- You want to stay independent of the support of others.
- You want to have the flexibility of choosing care in the setting you prefer or will be most comfortable in.