A SPECIAL GUIDE FOR ACCOUNTANTS AND CPAs

Long-Term Care Insurance Protection

FIVE MINUTE GUIDE

WITH THE LATEST TAX INFORMATION FOR INDIVIDUALS, BUSINESS OWNERS AND EMPLOYER GROUPS.

2012 EDITION
CURRENT TAX LIMITS

American Association for Long-Term Care Insurance™

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You are your clients' trusted advisor

"Accountants & CPAs play an important role helping Americans and their families plan for and protect a sound financial future.

Today, that includes planning for eventual long-term care needs."

Barry C. Melancon, CPA
President and CEO
American Institute of Certified Public Accountants

Long-term care insurance **protects retirement savings** and lifestyle.

It preserves **personal freedom to choose** where and how care is received.

It allows loved ones and family members **to care about you … instead of having to care for you.**

It offers significant tax advantages.

TAX CODE TREATMENT OF LONG-TERM CARE AND LONG-TERM CARE INSURANCE

Federal tax law provides benefits to people who incur expenses for long-term care services or who buy long-term care insurance.

Long-Term Care Expenses

Taxpayers who incur expenses for their own long-term care or care of dependents may be able to deduct these expenses under the itemized medical expenses deduction to the extent that total medical expenses exceed 7.5 percent of adjusted gross income (AGI). Expenses reimbursed by any public or private insurance are not includable.

Taxpayers who pay for the care of a disabled dependent so that they can work (or look for work) may qualify for the child and dependent tax credit.

Long-Term Care Insurance

A tax-qualified long-term care insurance policy may provide tax advantages to individuals and business owners. These are more fully described in this guide.

A policy is considered tax-qualified if it meets several criteria. The policy must provide benefits only when the policyholder qualifies for help with two or more Activities of Daily Living (ADLs) such as eating or bathing, or needs supervision as a result of a cognitive impairment, such as Alzheimer's disease.

	LTC INSURANCE	INDIVIDUAL LIFE INSURANCE	REGULAR IRA	ROTH IRA	401K	FIXED ANNUITY
Premium or contribution deductible	✓		✓		✓	
Employer contribution not treated as income	✓				✓	
Earnings on savings/reserves not taxed	✓	✓	✓	✓	✓	✓
Payout of benefits not taxed	✓	✓		✓		

A tax-qualified policy must offer inflation protection and non-forfeiture benefits. The inflation protection option (now available in many formats) ensures that the policy's benefits increase over time. The non-forfeiture benefit preserves some coverage for purchasers who stop paying premiums.

Compared to other forms of insurance or retirement savings plans, long-term care insurance is unique in being tax-advantaged when purchased and when benefits are paid out.

State Tax Codes Increasing Offer Incentives

A growing number of States offer tax incentives for the purchase of long-term care insurance. A knowledgeable long-term care insurance professional can provide more information.

FREQUENTLY ASKED QUESTIONS

Will Medicare Cover Long-Term Care Costs?

Medicare is generally available for people age 65 or older, younger people with disabilities and people with End Stage Renal Disease (permanent kidney failure requiring dialysis or transplant).

Medicare pays limited amounts for skilled care following a hospital stay. Medicare does not cover most long-term care services that assist people with the activities of daily living over a long period of time.

Medicare will only cover the first 100 days of care in a nursing home per Benefit Period if you are receiving skilled care, and have a qualifying hospital stay of at least three days and enter the nursing home within 30 days of that hospital discharge.

There are deductibles and co-pays (that increase annually). In addition, Medicare covers limited home visits for skilled care and incidental homemaker services.

Do Individual or Group Health Plans Cover Long-Term Care Costs?

Health plans may cover some of the skilled medical services needed when one can't care for oneself after an illness or injury, but usually for a limited period and only as long as there is evidence of improvement.

Health plans typically do not cover ongoing chronic care such as an extended stay in an assisted living facility or nursing home, or a continuing need for a home health aide to help you in and out of bed.

What About Disability Income Insurance?

Disability income insurance is designed to replace income lost because of an inability to work due to accident or injury. It provides no additional benefits to specifically pay for long-term care expenses. And, it generally ends when you stop working or reach age 65 - just when you are most likely to become disabled.

LATEST STUDY REVEALS WHAT CAN CURRENT RETIREES EXPECT?

Estimates of the risk of using any nursing home care after turning age 65 are between 35% and 55%. Among those projected to use a nursing home, estimates of average total use range from 1.8 years to 2.8 years and the risk of using more than five years ranges from 12% to 21%.

Projected LTC Need For People Turning 65

	Average years lived after age 65	Average years of LTC need	Percent of people with LTC need	Distribution by years of LTC need (% of people): None	1 year or less	1-2 years	2-5 years	More than 5 years
All	17.8	3.0	69	31	17	12	20	20
Men	15.7	2.2	58	42	19	10	17	11
Women	19.8	3.7	79	21	16	13	22	28

Source: LTCi Sales Strategies magazine, "What Can Current Retirees Expect?" Research by Peter Kemper, Ph.D. Dept of Health Policy, Pennsylvania State University

BY THE NUMBERS

8.1 Million Americans now have long-term care protection

10 Million Americans currently need long-term care services (62% are 65 or older)

7.2 Million Americans receive formal (paid for) home care services

900,000 people live in assisted living settings. The average length of stay is 28.2 months (women) and 24.0 months (men)

1.3 Million are in certified nursing facilities. The average length of stay is 892.4 days. 27.1% will remain 3+ years

$6.0 Billion of long-term care insurance claims are paid annually (2011 data)

31% of long-term care insurance benefits are for home care; 30% for assisted living and 39% for nursing home care

57 is the average age for new policyholders (2011) down from 61 in 2005 and 67 in 2000

31.5% of long-term care insurance claims begin between ages 70 and 80. 9.3% begin before 70; 59.2% begin after 80

68.7% of benefit payments are paid to women who are 66.3% of claimants receiving benefits

Source of data: American Association for Long-Term Care Insurance research and 2010/2011 LTCi Sourcebooks.

ACCOUNTANT &
TAX ADVANTAGED LONG-

YOUNGER APPLICANTS QUALIFY FOR GOOD HEALTH DISCOUNTS

Preferred Health Premium Savings Generally Are 10%-to-20% Annually

Age of Applicant	% Who Qualify for Good Health Discounts
40 to 49	62.0%
50 to 59	**46.0%**
60 to 69	38.0%
70 to 79	**24.0%**
80 & Over	9.0%

Source: American Association for Long-Term Care Insurance industry study, 2010

WAIT TOO LONG AND CLIENTS MAY NOT "HEALTH QUALIFY"

Changes in health impact the ability to qualify for long-term care insurance. Waiting can be a costly mistake.

Age of Applicant	Percentage of Applicants Declined
Under 50	9.5%
50 to 59	**14.0%**
60 to 69	23.0%
70 to 79	**45.0%**
80 & Over	66.0%

Source: AALTCI, 2010

A current health condition may not disqualify an applicant, but it pays to find out before it worsens.

Acceptable health conditions (health underwriting criteria) vary among insurers and change periodically.

A knowledgeable long-term care insurance professional typically works with multiple insurers.

Individual Purchase

Tax-qualified long-term care insurance (LTCi) premiums are considered a medical expense. For an individual who itemizes tax deductions, medical expenses are deductible to the extent that they exceed 7.5% of the individual's Adjusted Gross Income. The amount of the LTCi premium treated as a medical expense is limited to the eligible LTCi premiums, as defined by Internal Revenue Code 213(d). Any portion of LTCi premium that exceeds the eligible limit is not includable as a medical expense.

Individual taxpayers can treat premiums paid for tax-qualified LTCi for themselves, their spouse or any tax dependents (such as parents) as a personal medical expense.

The yearly maximum deductible amount for each individual depends on the insured's attained age at the close of the taxable year [See Table]. These deductible maximums are indexed and increase each year for inflation.

PLANNING TIP

Some LTC insurers offer "shared care" policies where two people share one pool of benefits. This may be used to maximize the eligible tax deductibility when there is a difference in ages between the spouses.

TAX SAVINGS TIP

Long-term care insurance premiums may be paid from a Health Savings Account (HSA) up to the limits shown above.

AS CLIENTS AGE, THEIR TAX DEDUCTIBLE LIMIT INCREASES

FEDERAL TAX DEDUCTIBLE LIMITS

Taxpayers Age Before the Close of Taxable Year	*2011 Limit*	*2012 Limit*
40 or less	$ 340	$ 350
More than **40** but not more than 50	$ 640	$ 660
More than **50** but not more than 60	$ 1,270	$ 1,310
More than **60** but not more than 70	$ 3,390	$ 3,500
More than 70	$ 4,240	$ 4,370

For calendar year 2012, the per diem limitation under 7702B(d)(4) regarding periodic payments received under a qualified LTC insurance policy is $310.

Source: IRS Revenue Procedures: 2010-40 and 2011-52

Self-Employed

A self-employed individual can deduct 100% of his/her out-of-pocket long-term care insurance premiums, up to the Eligible Premium amounts listed above [IRC 162(l)]. The portion of LTCi premiums that exceeds the Eligible Premium [See Table] amount is not deductible as a medical expense. The deductible amount includes eligible premiums paid for spouses and dependents [IRC 162(l)]. It is not necessary to meet a 7.5% AGI threshold in order to take this deduction.

However, a self-employed individual may not deduct LTCi premiums during any calendar month in which he/she or his/her spouse is eligible to participate in a subsidized LTCi plan (where the employer pays all or part of the premiums for LTCi).

CPAs GUIDE TO
-TERM CARE INSURANCE

Partnership, LLC, Subchapter S Corporation

Partners in a partnership, members of an LLC that is taxed as a partnership, and shareholders/employees of Subchapter S Corporations who own more than 2% of the Corporation, are taxed as self-employed individuals. The partnership, LLC or Subchapter S Corporation pays the premium.

The partner, member or shareholder/employee includes the LTCi premium in his/her Adjusted Gross Income, but may deduct up to 100% of the age-based Eligible Premium [See Table]. It is not necessary to meet a 7.5% AGI threshold.

If the sole shareholder/employee purchases LTCi in his/her own name instead of that of the S Corporation, the S Corporation is not treated as a partnership and the shareholder is not treated as a partner. As such, the shareholder is not treated as self-employed and is only eligible to include his/her eligible LTCi premiums in his/her itemized deductions, which are subject to the 7.5% AGI threshold.

PLANNING TIP

In a sole proprietor or a partnership situation, the owner/partner who has a spouse who is a true employee can deduct the actual (full) premium for that spouse's policy. If that spouse's policy had a shared benefit rider, that would be included in the deductible premium amount (actual total premium is deductible). This does not work for owners and spouses of S Corporations.

Subchapter C Corporation

When a business purchases a tax-qualified LTCi policy on behalf of any of its employees, or their spouses and dependents, the corporation is entitled to take a 100% deduction as a business expense on the total premium paid. The deduction is not limited to the aged-based Eligible Premiums.

The purchase of a tax-qualified LTCi policy is not subject to any non-discrimination rules, thus allowing an employer to be selective in the classification of employees it elects to cover.

PLANNING TIP

Premium payments generally will be tax deductible when the class is based on such factors as the officers of the corporation and length of service (e.g. company pays for all those who are Senior Vice President or higher and have been with the company for 12 or more years). Tax rulings have stipulated that the class cannot, however, be based on stock ownership.

TAX SAVINGS TIP

The use of Ten-Pay or Accelerated Premium plans provide higher tax deductions for the Corporation and enable the long-term care insurance premium to be fully paid-up by the time the owner retires (no ongoing premiums) or sells.

The premium paid by the business is excluded (not reported) from the employee's Adjusted Gross Income even if the premium exceeds the Eligible Premium amount.

THE BREAK-EVEN POINT

Days on full claim to recoup the cost of insurance protection?

Age	Premiums Paid	Daily Benefit	Number of Days
59	$ 1,150	$130.00	9 Days
60	$ 2,300	$136.50	17 Days
65	$ 8,050	$174.21	46 Days
70	$ 13,800	$222.34	62 Days
75	$ 19,550	$283.77	69 Days
80	$ 25,300	$362.18	70 Days

Policy daily benefits increase at 5% compounded annually. These days are after satisfaction of the Elimination Period (90 days for this premium rate).

COST OF WAITING TO AGE 65

The impact of delaying the purchase of LTCi protection from age 59 to age 65 - even when saved premiums are invested.

Age	Cost Today[1]	Projected Cost to Wait to 65	Side Fund Invested 6% 25% Tax
59	$ 1,150	Uninsured	$ 1,201
60	$ 1,150	Uninsured	$ 2,458
61	$ 1,150	Uninsured	$ 3,770
62	$ 1,150	Uninsured	$ 5,141
63	$ 1,150	Uninsured	$ 6,574
64	$ 1,150	Uninsured	$ 8,072
65	$ 1,150	$ 2,814	$ 6,696
69	$ 1,150	$ 2,814	$ 546
70	$ 1,150	$ 2,814	($ 1,168)
75	$ 1,150	$ 2,814	($10,968)
80	$ 1,150	$ 2,814	($23,181)
Total Paid	$25,300	$45,024	

RISKS

6 Years Uninsured

Higher Attained-Age Rate

No Future Guarantee Client Will Health Qualify

Subject to Future Premium Increases

[1] *Average premium for $100 daily benefit, 3 year benefit period, 90 day EP, includes benefit increase rider (spousal and good health discounts included).*

Key LTC Provisions
of the 2005
Deficit Reduction Act

The Deficit Reduction Act of 2005 (DRA) signed by President Bush in Feb. 2006 made several major changes that impact long-term care planning.

Asset Transfers

DRA requires States to lengthen the look-back period for asset transfers to establish Medicaid eligibility for nursing home coverage from 3 to 5 years and changes the start of the penalty from the date of the transfer to the date of Medicaid eligibility.

Annuities

Requires annuities to be disclosed and the State named as a remainder beneficiary for cost of Medicaid assistance.

Mandatory "Income-First" Rule

Requires States to consider all income of institutionalized spouses to meet the minimum monthly maintenance needs allowance for community spouses.

Excluded Coverage for Substantial Home Equity

Persons become ineligible for Medicaid with home equity in excess of $500,000-to-$750,000, as set by the State.

Long-Term Care Insurance Is The Best Option To Avoid Dependence On The Future Ability Of Medicare (& Medicaid) To Pay

ACCOUNTANT AND CPA'S GUIDE TO TAX ADVANTAGED LONG-TERM CARE INSURANCE

Gift Tax Exclusion

In addition to the annual Gift Tax Exclusion (currently $13,000 per donee), a donor has the ability to pay for the medical expenses of the donee [IRC Sec. 2503(e)]. If those medical expenses are tax-qualified LTCi premiums, the exclusion is subject to the age-based limits for Eligible Premium listed [See Table]. An individual (donor) can purchase LTCi policies for family members (donees) and still maintain the annual Gift Tax Exclusion when selecting a Ten-Pay or Accelerated Payment Option.

Return of Premium Provision

The refund is included in the beneficiary's gross income and is taxable, to the extent it was either excluded from the owner's income or deducted by the owner. It must be included as income in the year it is received.

Health Savings Account (HSA)

Tax-qualified LTCi premiums can be reimbursed through an HSA, tax-free up to the Eligible Premium amounts listed [See Table], even if the HSA is offered through an employer-provided cafeteria plan.

Health Reimbursement Account (HRA)

Reimbursements for insurance covering medical care expenses, as defined in IRC Sec. 213(d), which includes qualified long-term care services and qualified long-term care insurance premiums are allowable under an HRA. Although employers pay for HRAs, an HRA cannot be provided by salary reduction or IRC Sec. 125 plans. As such, the LTCi premiums cannot be paid on a pre-tax basis through an HRA.

Cafeteria Plan

Tax-qualified LTCi premiums cannot be purchased with pre-tax dollars under an employer-provided cafeteria plan. However, LTCi premiums may be paid through an HSA that is offered under an employer-provided cafeteria plan.

Flexible Spending Account (FSA)

Tax-qualified LTCi premiums cannot be reimbursed under an FSA.

WHEN EMPLOYERS OFFER LONG-TERM CARE INSURANCE

Individuals are increasingly being offered long-term care insurance by their employer or as a benefit of membership in an organization.

When costs are involved, individuals should compare the costs and benefit-levels with a traditional individual long-term care insurance plan.

Group plans may offer less stringent health underwriting. They may not offer the significant spousal or partner and good health discounts that are available with individual policies. **It always pays to compare.**

WHO IS ADVISING YOUR CLIENTS?

BE THEIR TRUSTED SOURCE OF INFORMATION ON LONG-TERM CARE PLANNING

Providing Long-Term Care Insurance Solutions for Individuals, Business Owners & Employer Groups

Expertise *Experience*

Let's discuss how we can work together.

Service *Trust*

LONG-TERM CARE INSURANCE IS GOOD FOR AMERICA®

American Association for Long-Term Care Insurance™

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