



Long Term Care Insurance Tax Tips

Introduction

Your chances of requiring some sort of long-term care increase as you age, and long-term care insurance (LTCI) can help you cover your long-term care expenses. Although tax issues are probably not foremost in your mind when you buy LTCI, it still pays to consider them. In particular, you should explore whether your premiums will be deductible and your benefits taxable.

You may be eligible for an income tax deduction

You may be able to deduct all or part of the LTCI premiums you pay for yourself, your spouse, or a dependent, but only if your policy meets the IRS criteria for a qualified policy. If you bought the policy before January 1, 1997, and it met the requirements of the state where it was issued, it is automatically considered a qualified policy. If you bought the policy later, it must satisfy several requirements to be considered qualified.

First of all, the policy must provide coverage only for qualified long-term care services. These include necessary diagnostic, preventive, therapeutic, curing, treating, mitigating, and rehabilitative services, as well as maintenance or personal care services that are required by a chronically ill individual, in connection with a plan of care prescribed by a licensed health-

care practitioner. Also, your policy must satisfy the following conditions:

- It must be guaranteed renewable, meaning that you can renew your policy as needed without undergoing additional medical exams
- It must not have a cash surrender value or any provision that allows you to cash in, pledge, assign, or borrow against the policy, or receive anything more than a refund of premiums paid if you cancel the policy
- It must provide that any refunds and dividends (other than refunds upon termination of the policy) can be used only to reduce future premiums or increase future benefits
- It must not pay for (or reimburse) expenses that are reimbursable under Medicare, unless Medicare is a secondary payer, or unless the policy pays a specified amount per day regardless of actual expenses
- It must meet certain consumer protection requirements set out in the Internal Revenue Code

The amount of your deduction depends on a few factors

If your LTCI policy meets the conditions listed above, or if it was issued before January 1, 1997, at least part of your premium may be tax deductible as a medical expense. To qualify for

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a medical expense deduction, your unreimbursed medical expenses (including LTCI premiums) must exceed 7.5 percent of your adjusted gross income. Also, you must itemize your deductions.

The maximum amount of LTCI premiums that you can deduct in a year depends on your age at the end of the year. In 2009, deduction limits (which are indexed each year for inflation) are as follows:

Age	Limit on Deduction
40 or younger	\$320
41 to 50	\$600
51 to 60	\$1,190
61 to 70	\$3,180
71 or older	\$3,980

Watch out--your long-term care insurance benefits may be taxable

A qualified LTCI contract is treated as an accident and health insurance contract, and the benefits are typically treated as tax free.

However, if your contract pays a set dollar amount per day (per diem), the tax-free treatment is subject to a certain limit, indexed annually for inflation. Benefits over and above this limit are generally considered taxable income.

Under this limit, the amount of your LTCI benefits that is excluded from taxation in a given period is figured by subtracting any reimbursement received (through insurance or otherwise) for the cost of qualified long-term care services during the period from the larger of the following amounts:

- The actual cost of qualified long-term care services during the period
- The dollar amount for the period (\$280 per day for any period in 2009)

It's a different story if you have a nonqualified LTCI policy, though. Such benefits may be subject to income tax.

Disclosures – Important – Please Review

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