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Tax Advantages in Long-Term Care Insurance

Presented by
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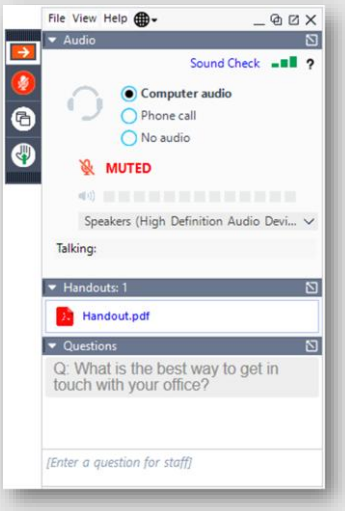
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Questions & Handouts

- Download **today's handouts** from the GoToWebinar toolbar.
- Don't forget to **complete the survey** at the end of the presentation!



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About Us

Krause Agency is a national wholesaler of insurance products tailored to the senior market. With a focus on asset preservation solutions, we provide products, training, and support to agents and advisors helping clients plan for retirement and long-term care.



30+
Years of Experience

400+
Clients Helped Monthly

1,300+
Active Agents

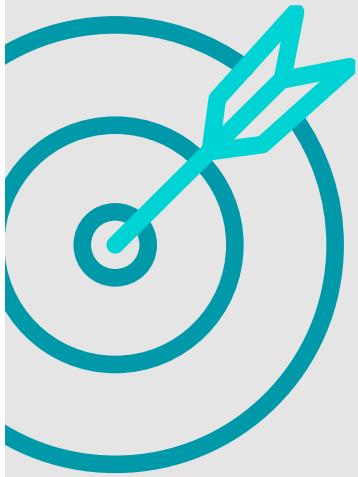
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Today's Goals

1. Identify long-term care insurance tax advantages and deductions.
2. Discuss employer-paid long-term care insurance and the benefits it offers.
3. Explore LTCI partnership policies and strategies.



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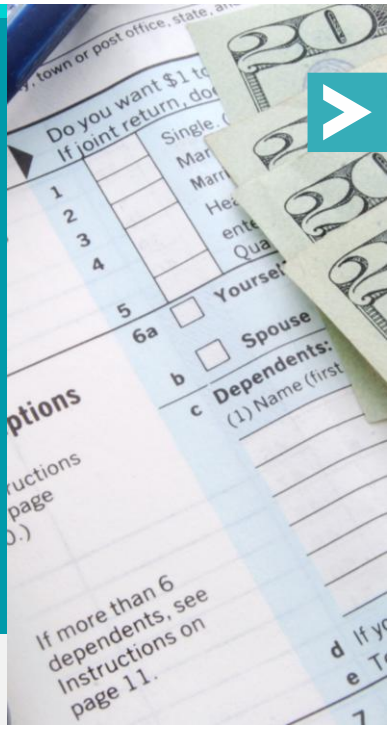
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LTC Tax Advantages

- Started in **1997** – Tax Qualified Plans introduced
- Most states offer incentives as **credits or deductions**
- Ties to the incentives via **partnership**
- 7702b vs. 101g

Disclaimer: We are not offering tax advice.



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Individual LTCI Premium Tax Deduction

- Premiums for tax qualified plans **can be itemized** as medical expenses.
- Subject to **eligible premium** as shown in the chart
- The LTCI premium is then **counted as a medical expense** and is deductible as long as all medical expenses exceed 7.5% of Adjusted Gross Income.

Maximum Eligible Premium Deduction per Person

Age at End of Tax Year	2025 Limit	2026 Limit
Age 40 or under	$480	$500
Age 41 to 50	$900	$930
Age 51 to 60	$1,800	$1,860
Age 61 to 70	$4,810	$4,960
Over age 70	$6,020	$6,200

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CALCULATION EXAMPLE
Meet Jan (61)



- Single Female
  - *AGI:* ***$100,000***
  - *LTCI Premium:* ***$4,000***
  - *Medical Expenses:* ***$6,000***
- Jan will multiply her **$100K x 7.5% = $7,500**
- Jan will add up all her medical expense and premiums which **totals $10,000** for the year.
- The amount that exceeds $7,500, which is $2,500, is deductible from her taxes as a medical expense.
  - Her maximum deduction for LTC premium is capped at $4,810 and her premium is only $4,000, so **she can count the full premium as a medical expense.**
- Jan can deduct **$2,500 of her LTCI premium,** for that year.

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Additional Tax Advantages

- **HSA –** Health Saving Account – Tax-Free Expense
- **MSA –** Medical Saving Account – Tax-Free Expense
- **Cafeteria Plan 125 –** Not Allowed as LTC Deduction because they are pretax deductions.

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Employer Paid LTC Insurance

- Employers may **deduct premiums** paid all or in part for employee and spouses or other dependents. *There is no limit.*
- Employee must be a **non-owner**
- Premiums are **excluded** from employee's gross income
- HRA (Health Reimbursement Arrangement) considered an **acceptable tax-free expense** up to eligible age-based amount to the employee

Not subject to the 7.5% rule

Types of Corporations – C-Corp

- Owners and shareholders are **treated a employees**.
- All premiums paid by C-Corp are **fully deductible**.*
- C-Corp may pay for **employee, spouse, and dependents** with no eligible amount requirement.
- C-Corp **may discriminate** how much they pay or if they will pay for any predetermined group within the corporation.
- For shareholders in the C-Corp who are not employees, premiums will be **treated as a dividend** which will be taxable to both corporation and shareholder.

**Not subject to the 7.5% rule*

Self-Employed Business Owners

- May deduct LTCI premium like health insurance with **no itemizing**
- This is considered an **above-the-line** deduction.

Not subject to the 7.5% rule



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Sole Proprietor

- Premium paid by the business for the owner, spouse, and dependents are consider as **a draw and business income**.
- The owner can take **up to the eligible amount** as a Self-Employed deduction for each person covered.

Not subject to the 7.5% rule

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Partnerships and LLCs

- Premiums paid for partner, spouse, and dependents are **included as income and reported on form K-1**.
- The partner may take **up to the eligible amount** as a Self-Employed Health Insurance Deduction for each insured.

Not subject to the 7.5% rule

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Subchapter S Corporations

- Shareholders who own more than 2% of the stock **are treated as partners** for health and LTCI deductibility.
- Individual policies must be **paid by the S-Corp directly** to the insurance carrier.
- The Shareholder/Employee must **include the premium paid** in their AGI.
- May deduct **100% of premium** up to the eligible amount

Not subject to the 7.5% rule

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Taxation of Long-Term Care Insurance Benefits

- Normally tax-free if insured is **deemed chronically ill** and benefits are used to pay for qualified long-term care services.
- Benefits received on a per diem basis **may be taxable** if they exceed both the cost of qualified care services and daily threshold of $420 (for 2025).

Exceptions:

If qualified funds are used to fund an Annuity Hybrid LTCI Plan and any portion of the benefits are not used for a claim

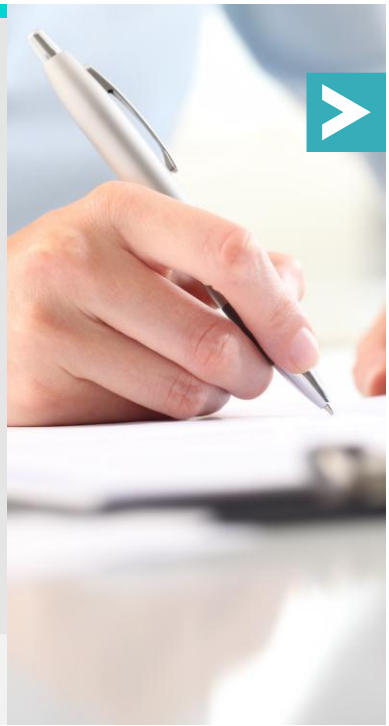
If qualified funds are used to pay for a Hybrid Life Plan

LTC Partnership Policies

- Deficit Reduction Act of 2005 - **DRA Partnership LTCI Plans**
- Partnership between private industry and public funding of LTC (Medicaid) as an **incentive** to purchase
- Asset disregard dollar-for-dollar from Medicaid estate recovery
- **Special Training is required:** 8-hour CE and 4-hour CE
- States that predate DRA are grandfathered: CA, CT, IN, NY

Partnership Requirements

- Must purchase a **Traditional Tax-Qualified LTCI Plan**
- Hybrid or asset-based plans **do not** qualify for partnership
- Must include a **compound inflation rider** up to age 75
- Traditional plan must offer partnership in the state



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HOW PARTNERSHIP WORKS

Meet Nick (65)

- Nick is 65 and buys a Tax Qualified LTCI Plan with a **total benefit amount starting at $300,000**.
- He also purchased a **3% compound inflation rider**.



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HOW PARTNERSHIP WORKS

Nick's Results



- Nick goes on claim at age 77. His benefit has **grown to $450,000** by then.
- While he was on claim, the policy continued to grow and by the time he exhausted it, the policy had **paid out $500,000.**
- When applying for Medicaid, Nick is able to keep his resource allowance of **$2,000 plus an additional $500,000 of countable assets,** which could potentially be passed to his heirs upon his death.

Summary

- LTCI premiums are **tax deductible** for individuals, but few can take advantage.
- Businesses can deduct LTCI premiums, but the **premiums are taxable as income/dividends** to the individual owners. Employer-paid LTCI is not taxable as income to a non-owner employee.
- Partnership programs **enable people to protect assets equal to the payout of the LTCI policy** but are rarely used because the majority do not pursue and/or need Medicaid after exhausting LTCI benefits.



Questions

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