

Tax Breaks for LTC Insurance

Long term care (LTC) insurance provides important protection to individuals and their families when the need for long term care arises. It provides a daily benefit that can help cover the costs associated with a nursing home, an assisted living facility, an adult day health center, or home health care. LTC insurance may allow individuals to keep more of their savings, offer increased options for care, and help maintain independence, while alleviating the financial and caregiving burden on family members.

In addition to these advantages, LTC insurance can provide tax benefits. Under the Health Insurance Portability and Accountability Act of 1996 (HIPAA), insurance policies generally receive the same favorable income tax treatment (within prescribed limits) as accident and health insurance contracts. Here are some key points to consider:

Like premiums for regular health insurance, **premiums** for qualified LTC policies can be deducted as a medical expense, subject to the general 10% of **adjusted gross income (AGI)** floor for medical expenses. However, it is important to note that the amount that qualifies for the medical expense deduction is limited according to the age of the insured. The qualified deduction, to be indexed for inflation in future years, is subject to the following annual limits in 2014.

Age (Before Close of Tax Year)	Limitation
40 and under	\$370
41 to 50	\$700
51 to 60	\$1,400
61 to 70	\$3,720
Over 70	\$4,660

Benefits received under a qualified LTC policy are generally income tax free because they are considered insurance reimbursements for medical expenses.

LTC expenses unreimbursed by insurance are deductible as medical expenses (subject to the 10% of AGI floor). These expenses are not deductible if a relative provides the services, unless the relative is licensed to provide such services.

For some people, these tax incentives can help make LTC and LTC insurance more affordable. For more information and tax advice according to your unique circumstances, consult with your qualified tax professional.

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