Long Term Care
And
Long Term Care Tax Incentives

Having a successful and financially independent situation at retirement includes accumulating wealth to replace earned income from work, while at the same time protecting against financial hardships. One of these hardships could be medical cost. Today, "baby boomers" and their parents are requiring long-term care services in record numbers. Approximately,

- 60% of Americans who reach age 65 may need long-term care services (The Looming Crisis, American Health Care Association, 2000.P.1)
- 40% of American people requiring long term care services are working age adults – age 18-64. (American Academy of Actuaries, 1999)

I recommend taking a strong look at long term care for pre-retirement planning for the following reasons:

1. Premiums increase with age. Buying while younger usually means less overall premiums throughout the life of the policy.
2. Buy it before your health declines or you cross over the "line of insurability". If you have health issues, looking at coverage at younger ages creates more options and more favorable underwriting.
3. Purchase Cost of Living increases – compounding. This increases the buying power of your policy by 5% per year with most policies. This will help your policy maintain its buying power and increase its overall value when compared with its scheduled level premiums.
4. Purchase when your income is higher. Buy when you have dollars to pay the premium. While working, you typically will have more cash flow to pay premiums and lock in your premiums. Today, many companies allow you to fully pay premiums all at once, or over 10 years, or pay just to age 65.This provides an opportunity to better prepare for retirement by completing this outflow of dollars prior to retirement.
5. Use your employer to provide a sponsorship or affiliation program to help lower the premium rates. This can provide as much as 10% additional discounts in addition to spousal and partner discounts. These discounts continue beyond your employment to retirement or if you transfer to another employer. Your spouse and parents can also be included in the discount premiums for policies on their lives.
6. If you are a business owner or have proper support by the business entity, deductibility of premiums may be possible. This could save you an additional 15-38% on the premiums.

As you can see, purchasing long term care at younger ages can be an affordable, intelligent pre-retirement strategy.

Regarding Taxation of Long Term Care:
As mentioned above, Long Term Care, consisting of Home Health Care, Assisted Living or Nursing Home Care is a rapidly increasing expense. Over 60% of Americans age 65 or older will need this type of care during their lifetime (Conning and Company, Long Term Care Insurance Baby Boom or Bust, 1999). This is a rapidly increasing burden upon Americans and generates stress on national programs, like Medicare and Medicaid. Tax incentives have enhanced the savings of this important individual coverage for those who take financial responsibility for their LTC needs. LTC premiums are treated in a similar way to medical expenses under the IRS tax code. Purchase of a "Tax-Qualified" policy allows for the deduction to take place under certain scenarios. Listed below are a few considerations based upon general interpretation of current IRS rules. Please refer to your tax professional for specific tax advice.

1. As of January 2003, certain business owners can deduct premiums towards LTC for selected owners or employees. This deduction may also include their direct dependent family members. In some cases this could reduce the overall financial impact of the premium by up to 39%. Premium contributions made by employers are currently non-taxable income to employees.
2. Individuals can deduct their premiums if they itemize their tax returns and their total medical expenses exceed 7.5% of their adjusted gross income. The deductible amount depends on the excess above 7.5% and their age.

While the premiums are deductible, the benefits received under a "Tax Qualified" policy remain income tax free as long as the daily benefits are used to provide LTC services and fall within the IRS's maximum limits (currently $220/day).

INVEST Financial Corporation does not provide tax advice. Please consult your tax advisor for guidance on your particular situation.

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