Long-Term Care Insurance

Agent Tax Guide

The Unique Tax Advantages of Traditional LTCi

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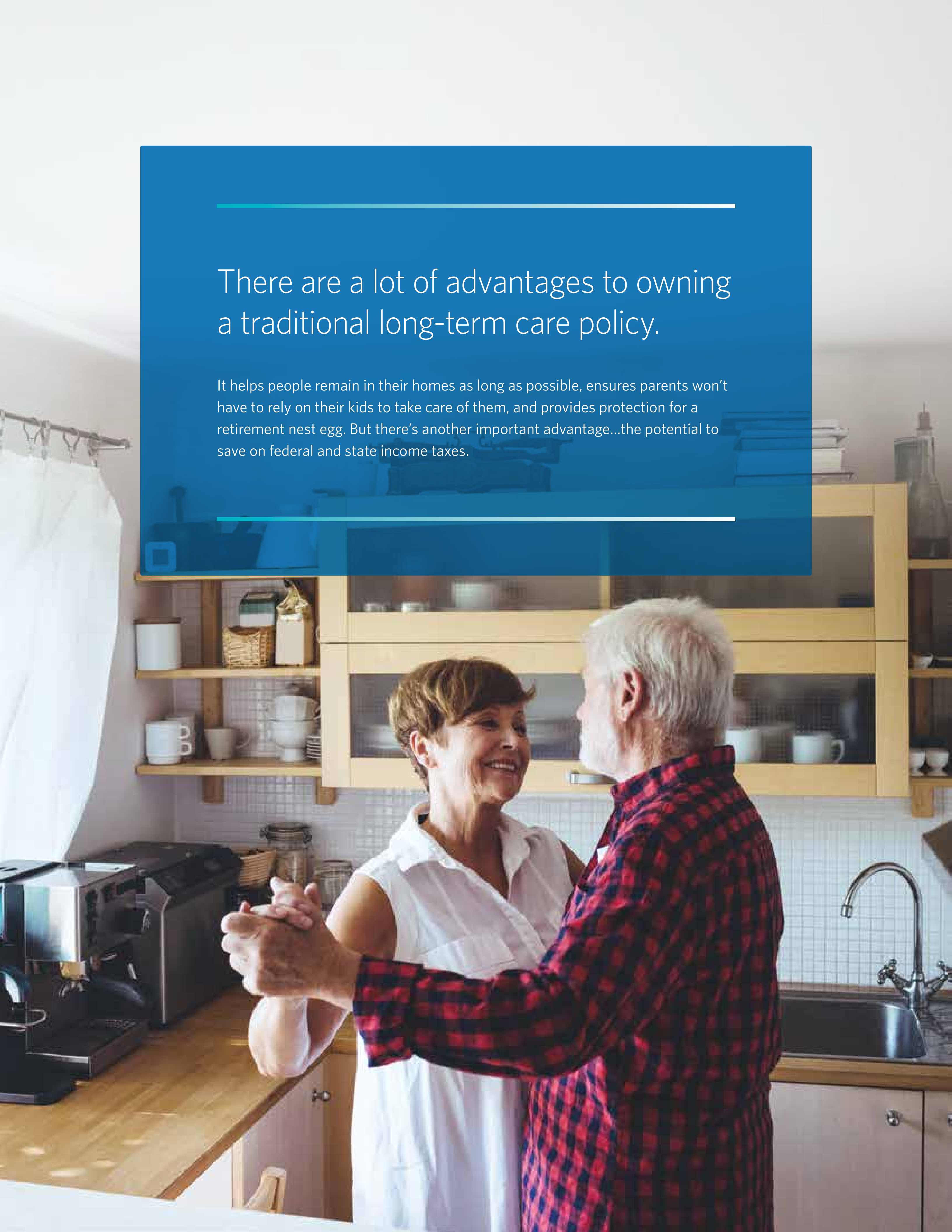
Mutual of Omaha

Underwritten by
Mutual of Omaha Insurance Company



There are a lot of advantages to owning a traditional long-term care policy.

It helps people remain in their homes as long as possible, ensures parents won't have to rely on their kids to take care of them, and provides protection for a retirement nest egg. But there's another important advantage...the potential to save on federal and state income taxes.

It Starts with HIPAA

The Health Insurance Portability and Accountability Act of 1996 (HIPAA) included provisions for favorable tax treatment of long-term care insurance contracts. HIPAA provides that, for tax purposes, qualified long-term care contracts will be treated as accident and health insurance, subject to certain rules and limits. Policies issued after January 1, 1997 that meet certain standards are classified as tax-qualified plans.

Benefits paid on a tax-qualified long-term care policy are not considered taxable income as long as benefit payments do not exceed $360 per day or does not exceed actual cost of care. The policyholder generally can deduct the lesser of actual premiums paid or the eligible premiums as a medical expense to the extent they exceed 7.5 percent of 2018 annual adjusted gross income.

What Makes a Policy Tax Qualified?

In order to be tax-qualified, a long-term care policy must contain certain required provisions. Many of these pertain to the manner in which future benefit payments can be triggered. If the policy contains all the required language, it generally can be considered a Qualified Long-Term Care (QLTC) insurance contract for tax purposes.

- The policy must be guaranteed renewable
- In order for benefits to be paid, there must be an expectation that the disability will be long-term (90 days or longer)
- The individual must be certified by a licensed health care practitioner within the last 12 months as "chronically ill." The certification must be based on one or both of the following events:
    - The inability to perform, without human help, at least two of the six Activities of Daily Living (ADLs). The ADLs are eating, toileting, transferring, bathing, dressing and continence
    - The need for substantial supervision due to severe cognitive impairment in order to protect the individual from threats to health and safety
- Nonforfeiture benefits and benefit increase options (inflation protection) must be offered to the insured, but are not required as part of the policy
- Benefits under a QLTC policy cannot duplicate Medicare benefits
- Policies issued before 1997 are considered to be "grandfathered" into the law and are considered tax qualified. Policies issued after January 1, 1997 that do not meet the above requirements are classified as non tax qualified plans



Tax Treatment of Qualified LTCi Policies

Tax Deductible Premiums

Current tax laws allow for the deduction of either the **actual premium** or the **eligible premium** paid on a tax-qualified long-term care insurance policy.

- **Actual premium** is the actual amount of premium paid
- **Eligible premium** is an amount determined annually by the federal government based on the medical care components of the Consumer Price Index and the age of the policyholder

Eligible Premium Guidelines for 2018	
At age:	You can deduct:
40 and younger	$420
41-50	$780
51-60	$1,560
61-70	$4,160
71 and older	$5,200

Source: IRS Revenue Procedure 2017-58

Tax-Free Benefits

The benefits paid by a tax-qualified long-term care insurance policy are intended to be tax free as long as they do not exceed the greater of:

- Qualified long-term care daily expenses, or
- The per-day limitation, which is $360 in 2018

Source: Section 7702B of the Internal Revenue Code (IRC)

Deductible Out-of-Pocket Expenses

Generally, any long-term care expense paid out-of-pocket may be claimed as a medical deduction on a federal income tax return. The only exception is payment for home care provided by a family member who is not a licensed health-care professional.

State Tax Deductions

Currently a number of states offer tax deductions and/or credits for people who purchase tax-qualified long-term care policies. These state deductions and credits are in addition to those offered by the federal government.

Tax Advantages for Individuals and Businesses

For Individuals	**Eligible premium** may be claimed as a medical expense in 2018 as long as: • Combined medical expenses exceed 7.5 percent* of adjusted gross income, and • Deductions are itemized on the federal income tax return *Percentage may be subject to change.
For Self-Employed Business Owners Sole Proprietor | Partnership | LLC | S Corporation	**Eligible premium** may be tax deductible when the business purchases long-term care insurance policies for: • Owner • Spouse • Dependents **Actual premium** may be tax deductible when the business purchases long-term care insurance policies for: • Employees
For Owners of C Corporations	**Actual premium** may be tax deductible when the business purchases long-term care insurance policies for: • Owner/Employee* • Spouse • Dependents • Employees *The officers and owners of C Corporations may be employees, which means premium paid by the corporation for tax-qualified LTCi (QLTC) policies may be deductible by the corporation and not taxable to the employees if the contributions are made pursuant to an employee benefit plan. If the QLTC employee benefit plan is insured, it need not conform to non-discrimination rules and may be available only to a select class of employees (IRC Section 106). The corporation must be able to show that the plan covers owner-employees as employees and not as owners. QLTC coverage may not use salary reduction dollars to pay its premium contribution. If premiums are paid in advance, such as in a short-pay situation, the amount and timing of the deduction currently is unclear. The client should consult a tax advisor.

What You Need to Know About Employer-Sponsored Plans

Certain employees are governed by the Employee Retirement Income Security Act of 1974 (ERISA) when an employer is "sponsoring" a long-term care program (i.e., paying a portion of the premium, endorsing or promoting solicitation of the coverage during work hours, etc.).

Whether ERISA applies to an employee benefit program depends the unique situation of the business. Therefore, Mutual of Omaha will not determine whether a business must comply with ERISA. The business owner should consult a tax advisor or other qualified professional.

In addition to ERISA, many state regulations also have limitations which would require compliance for employers with as few as five employees. Federal and state laws should be evaluated to determine limitations for employer groups. Again, a tax advisor should be consulted. Our long-term care insurance policy premium rates are gender-based (except for MT). Therefore, not designed to be compliant with ERISA or Title VII or similar state laws and generally not appropriate for an employer sponsored plan.

Additional Tax Considerations

Medical Savings Account

A Medical Savings Account (MSA), generally used by self-employed individuals, allows tax-deferred deposits to be made into the account. Withdrawals from an MSA are tax free if used to pay for qualified medical expenses. This means funds from an MSA can be used to pay for traditional tax-qualified long-term care coverage.

Health Savings Account

A Health Savings Account (HSA) allows individuals to save money tax free to pay their medical expenses. Long-term care premiums are considered to be an acceptable, tax-free medical expense, but only up to the age-based Eligible Premium limit, and only for tax-qualified policies. This means long-term care premiums can be paid using tax-free dollars eligible from HSA account.

Cafeteria Plan

Tax qualified long-term care policies cannot be purchased with the pre-tax dollars under an employer provided cafeteria plan.

Return of Premium Rider

Clients have the option to add a Return of Premium (ROP) rider to their long-term care policy. Upon the policyholder's death, the ROP rider returns premiums the policyholder paid (less any claims they received from the policy) to a specified beneficiary. The refund is included in the beneficiary's gross income and is taxable in the year it is received, to the extent when the premium was paid it was either excluded from the policyowner's income or deducted by the policyowner.

Gifting Premium

Individuals may be allowed to gift up to $15,000 per year for long-term care premiums or expenses without incurring a gift tax.

In addition to the annual gift tax exclusion of $15,000 per donee in 2018, a donor has the ability to pay for the medical expenses of a done. If those medical expenses are premium payments for tax-qualified LTCi, the exclusion amount is subject to the age-based limits for eligible premium. If the actual premium paid by the donor is more than the eligible premium, the donor can use some of the annual gift exclusion to cover the difference.

1035 Exchange

A 1035 exchange allows for the internal build-up of gains from a life insurance policy or annuity to be used to purchase a long-term care insurance policy without recognizing the gain, as long as 1035 exchanges are permitted. At this time, full or partial 1035 exchanges are not allowed on Mutual of Omaha's traditional long-term care policies. If your clients are interested in this option, consider the LTC rider available on our Income Advantage℠ IUL and Life Protection Advantage℠ IUL products.

Note: A 1035 exchange into a life insurance policy is only allowed from another life insurance policy.

Partnership-Qualified LTCi

The long-term care Partnership Program is a federally-supported, state-operated initiative that allows individuals who purchase a qualified traditional long-term care policy to protect a portion of the assets that typically would need to be spent down in order to qualify for long-term care benefits under Medicaid.

With partnership-qualified long-term care insurance, policyholders who exhaust the benefits of their policy and still need care can apply for Medicaid and protect one dollar of personal assets for each dollar their policy paid in benefits. For example:

If the LTCi policy pays
$100,000
in benefits

The policyholder can protect
$100,000
in personal assets

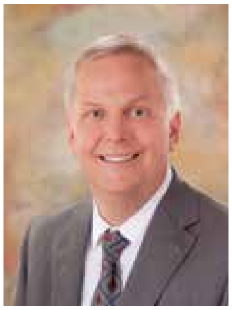
The amount protected is above and beyond the assets they're allowed to keep – typically around $2,000 for an individual. This includes savings accounts and investments, but excludes personal possessions, one car, a limited amount of life insurance and certain other items. Also, if a spouse remains in the home, he or she may be able to avoid impoverishment by keeping a portion of the assets owned by the couple.

Our Advanced Markets Team is Here to Help

Mutual of Omaha's Advanced Markets team is standing by to help you increase your sales. This dedicated team of experts includes attorneys with experience in law, securities, banking, insurance and financial planning. Here's what they can do to help you:

- **Income Planning:** Providing a focus on guaranteed income, Social Security planning and preservation of assets
- **Business Planning:** Helping business owners manage risk, grow assets and retain key employees
- **Estate Planning:** Enabling a more efficient passing of assets to heirs
- **Retirement Planning:** Providing expertise in qualified plan and technical plan case design
- **Life Insurance Planning:** Designing a life insurance plan to take care of what's most important to your clients
- **Business Valuations:** Enhancing business owners' understanding of a business's value and other critical performance indicators
- **Document Review:** Providing an expert review of wills, trusts, buy-sell agreements, deferred compensation agreements, etc.

Meet the Team



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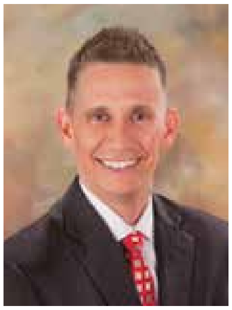

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Why Mutual of Omaha

We're invested in your success. We're committed to giving you the products your customers want plus the tools, resources and support you need.

MutualofOmaha.com/sales-professionals