

# LTC Tax Exemption

## Privately Owned LTC Insurance

### LTC Insurance, defined as Tax-Qualified under IRC 7702B

Includes:

- Traditional Indemnity style LTCI
- Life Insurance Riders providing Qualified Long Term Care Benefits
- Annuity Riders providing Qualified Long Term Care Benefits

Excludes:

- Life Insurance Riders providing “Chronic Illness” benefits under IRC 101(g)

### “Substantially Equal” coverage required

- WA State LTC Benefit is *\$100/d for 12 months*, this amount must be matched
  - *This is just 50% of the average assisted living cost in WA*
- Most CPAs predict state benefits will increase in future years
- Many predict additions for “renewal” of tax exemption to prove active coverage

# Insurance Solutions

## Traditional LTC Coverage

- Indemnity style insurance. Pays claims to service provider or facility
- History of extreme price increases. Not recommended in most cases
- Multiple companies have stopped taking applications from WA

## Hybrid LTC / Life Policy

- Long Term Care with Life Insurance component
- Pays cash benefits to the insured, up to a max monthly amount
- Premiums never increase, choose how many years to pay
- Return of Premium if cancelled offered with many policies
- Life Insurance is the secondary focus of this product

## Life Insurance with LTC Rider

- Life policy with an added “rider” for LTC Benefits
- Pays cash benefits to the insured
- Premiums never increase, choose how many years to pay
- Long Term Care is the secondary focus of this product

## Life Insurance with “Chronic Illness” Rider ❌

- This will not satisfy the exemption requirement
- Life policy with an added rider for “Chronic Illness” Benefits
- Often marketed as Long Term Care “Protection”
- Chronic Illness Riders are not Tax-Qualified LTCI under IRC 7702B
- These fall under IRC 101(g)
- A policy illustration for 7702B LTCI will have a specific section clearly stating if the LTC Benefits are considered “Qualified” under 7702B.

# Hypothetical Examples

## Hybrid LTC Insurance:

- 40 year old - **\$8,000** annual premium for 10 years
- \$53k annual LTC Benefit for 3 years - Increasing at 3% compounding
- \$116k Death Benefit, if LTC Benefits are not used
- \$5,800 Guaranteed Minimum Death Benefit if LTC is used
- Full Return of Premiums available after payment period ends (if policy is canceled)
- Partial Return of Premium available prior to end of payment period

## Life Insurance w/ LTC Rider:

- 35 year old - \$5,300 annual premium for 22 years
- \$108k annual LTC Benefit for 4 years - Level benefit, does not increase
- \$500k increasing Death Benefit, if LTC Benefits are not used
- \$90k Guaranteed Minimum Death Benefit if LTC is used
- Partial Return of Premium Guaranteed

## Which is right for me?

- Hybrid Policies are only available to those age 40+
- Hybrid Policies are often the most affordable option for those age 40+
- Life w/ LTC Rider maximizes Death Benefit, and provides more versatility.
- Life w/ LTC Rider benefits do not increase for inflation, so this must be taken into account
- Those needing extra life insurance should certainly consider the Life w/ LTC Rider.. Or those who have a more permanent need for life insurance past what their term policy provides. Also consider options such as replacing existing coverage with a LTC Rider Policy.

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