Why Long-Term Care Insurance?

EXECUTIVE SUMMARY

LONG-TERM CARE

Planning for the future is more than planning for the distribution of assets after death, it's planning for the unknown as well. As life expectancies increase and the baby boom generation ages, long-term care insurance has gained a higher profile out of necessity.

Long-term care may be needed due to a terminal condition, disability, illness, injury, or the growing infirmity of old age. That kind of protection is important when you realize that 70 percent of people who reach the age of 65 will require some form of long-term care services at some point in their lives.[1]

EMPLOYER'S PERSPECTIVE

Realizing how the need for long-term care may affect the workplace, smart employers are making themselves aware of what it is, how it works, and how they can better help protect their employees. Making long-term care insurance available to your employees may have a positive effect on their lives in the future – or even sooner in the case of an unexpected accident or health issue.

Employees may be especially interested in insurance that can help protect them and their families from the high costs associated with extended care services.[2] If your employee were to become a caregiver for a family member with a long-term care need, insurance for that family member could help with care options that may reduce your employee's time away from the job.

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PROGRAMS TO MEET THE EMPLOYER'S SPECIFIC NEED

Long-term care insurance may cost your company little or nothing, depending on how you choose to make the benefit available. You may select core benefit levels that make sense for your company's employees or let them choose from a full range of available benefits.

Employer-sponsored long-term care offers the convenience of payroll deductions and a single list bill. Additionally, since long-term care insurance is not currently subject to IRS nondiscrimination laws, a company-paid benefit can be used as a reward for just a class (or classes) of key employees who are critical contributors to the company's bottom line.

Three program designs enable each employer to offer one, two, or all three programs.

COMPANY-FUNDED OPTIONS

Two company-paid options may be offered to all employees, or you can choose to only cover key employees who also receive other company-sponsored benefits (one or more).

Company benefits include:

- Policies are paid for as long as participants maintain employment with your company
  - All policies are individually owned by the policyholder, so employees can keep their benefits at their own expense should they choose to leave or retire
- Current tax law provides incentives to use corporate funds to purchase long-term care insurance, see chart on page 3
- May include up to a 10 percent discount for qualified groups

[1] U.S. Department of Health and Human Services, http://longtermcare.gov/the-basics/who-needs-care/

[2] Prudential Insurance Company of America, Ninth Study of Employee Benefits: Today & Beyond

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Executive Carve Out Coverage rewards key team members with a policy at no cost to the employee: a 100 percent company-paid benefit in which everyone in a defined class of employees gets identical benefits.

Key Person Coverage rewards valuable employees with a company-paid base plan that allows employees to buy additional coverage through payroll deduction.

PLUS, AN EMPLOYEE-PAID OPTION

This option is a totally voluntary program with no employer contribution. Because long-term care often involves families, you may be surprised by how many of your employees understand why long-term care insurance may be valuable for them, having seen firsthand the financial and emotional cost of long-term care services for a loved one.

- Helps build loyalty by demonstrating your attention to employee needs
- Presents the opportunity for employees to learn about and gain valuable coverage
- May include up to a 5 percent discount for qualified groups

No matter which programs you decide to offer, you may also be able to extend the protection of long-term care insurance with a premium discount to your employees' family members: spouses, parents, siblings, children, in-laws, aunts, uncles, and cousins.

THINGS TO CONSIDER

- Funding options:
- Voluntary – no employer contribution
- Paid by company – carve out
  - Base plan with buy-up option
  - 100 percent of plan for executives
- Suggested employee communication:
- Email
- Flyers
- Employee education:
- Webinar/conference call
- Meetings/seminar in conference room

TAKING THE NEXT STEP

Awareness is only the first step. Learn the facts and understand all the options, then protect your employees from the risk of long-term care. Long-term care insurance is a viable planning solution not only for now but also retirement.

By working with an insurance professional, your employees can be assured they will not only receive care someday on their terms, but also their family's needs will be covered with the right insurance protection.

Employees are interested in voluntary benefits —even if their employer doesn't currently offer them. Most employees said they are "very interested" or "interested" in most voluntary benefits. The top five voluntary benefits receiving their interest were: Employee interest in purchasing on a voluntary basis. The voluntary benefits that interested employees differed somewhat from what employers said they are most likely to offer.

Voluntary Benefits Employees were Most Interested in Purchasing:

- **Vision Care Insurance**
- **Life Insurance**
- **Long-Term Care Insurance**
- **Dental Insurance**
- **Disability Insurance**

Voluntary Benefits Employers are Most Likely to Offer:

- **LTD Insurance**
- **Critical Illness Insurance**
- **Long-Term Care Insurance**
- **Accident Insurance**
- **Vision Care Insurance**

Prudential Insurance Company of America, Ninth Study of Employee Benefits: Today & Beyond

	Sole Proprietorship	C Corporation	S Corporation	Partnership	LLC
Tax treatment of premiums paid for employees	Fully deductible to entity, not taxable to employee	Fully deductible to entity, not taxable to employee	Fully deductible to entity, not taxable to employee	Fully deductible to entity, not taxable to employee	Fully deductible to entity, not taxable to employee
Tax treatment of premiums paid for owner/employees	Eligible premium deductible above the line*	Fully deductible to entity, not taxable to employee	>2% owner-eligible premium deductible above the line*; all others fully deductible to entity, not taxable to employee	Eligible premium deductible above the line*	Eligible premium deductible above the line*
Premium Paid by	Sole Proprietor	Corporation	Corporation**	Partnership	LLC
Reported as income to employee/owner	N/A	N/A	W-2 wages to >2% owner	Scheduled K-1, guaranteed income	Reporting depends on whether elected Corp or Partnership status
Tax treatment of premiums paid for employee's spouse	Fully deductible to entity, not taxable to employee	Fully deductible to entity, not taxable to employee	Fully deductible to entity, not taxable to employee	Fully deductible to entity, not taxable to employee	Fully deductible to entity, not taxable to employee
Tax treatment of premiums paid for owner/employee's spouse	Eligible premium deductible above the line*	Fully deductible to entity, not taxable to employee	>2% owner-eligible premium deductible above the line*; all others fully deductible to entity, no taxable to employee	Eligible premium deductible above the line*	Eligible premium deductible above the line*

2021 Eligible Premiums***

Age 40 or below	$450
Age 41 through 50	$850
Age 51 through 60	$1,690
Age 61 through 70	$4,520
Age 71 and above	$5,640

Premiums Paid By Individuals with After-Tax Dollars

Federal	Premium payments for tax-qualified LTC policies are considered unreimbursed medical expenses up to the amount of age-based eligible premium. An individual may include his or her annual eligible LTC insurance premium in the amount of unreimbursed medical expenses for the year. The amount of unreimbursed medical expenses that exceed 7.5% of the individual's AGI is federally tax deductible as an itemized deduction for income tax purposes. These expenses must exceed 7.5% of the individuals AGI for Alternative Minimum Tax (AMT) purposes.
State	Tax incentives regarding LTC Insurance premiums varies by state.

*Above the line - treated as an adjustment to gross income on the Individual Income Tax Return Form 1040 (i.e., before itemized deductions) for sole proprietor, partner, LLC shareholder and >2% S Corp shareholder.

**Under IRS Notice 2008-1, the IRS will also allow the same treatment for premiums paid by the shareholder/employee and reimbursed by the S Corporation.

***Source: IRS 2021 limits
The per-diem limitation under Section 7702B(d)(4) for periodic payments received under a qualified long term care insurance contract for 2021 are $400. Ash Brokerage and its representatives do not give tax advice. Please consult a tax professional.

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