



Long Term Care University

Long Term Care University – Question of the Month

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Q: Can we pay for our long term care insurance policies on a tax free basis?

The Problem – Paying for Long Term Care Insurance with After Tax Dollars

The Internal Revenue Code is loaded with tax benefits to encourage you to save for retirement through vehicles like 401(k) plans and Individual Retirement Accounts (IRAs). Unfortunately, paying for long term care insurance on a tax free basis is much less understood.

The Solution – Paying for Long Term Care Insurance on a Tax Free Basis

While companies have many ways to pay for long term care insurance on a tax free basis, individuals have fewer choices. Let's look at the tax benefits of paying on an after tax versus tax free basis, then two solutions to pay on a tax free basis.

Paying for Long Term Care Insurance with After Tax Dollars		Paying for Long Term Care Insurance on a Tax Free Basis	
Income	\$1,200	Income	\$1,200
Less 35% Federal Income Tax	(\$420)		
Available to Pay Long Term Care Insurance	\$780	Available to Pay Long Term Care Insurance	\$1,200

Health Savings Account (HSA) Allows You to Pay Your Long Term Care Insurance on a Tax Free Basis

An HSA is a tax-advantaged savings account tied to a high deductible health insurance plan that is increasingly becoming more common with employers. Contributions to your HSA are made on a pre-tax basis, while withdrawals for qualified medical expenses are made tax free. Just as importantly, any growth (interest, dividends, capital gains, etc.) inside an HSA is tax free if withdrawals are used for qualified medical expenses. Tax-qualified long term care insurance premiums are a qualified medical expense. The maximum amount of premium you can pay on a tax free basis is indicated in the table below.

Age at End of Taxable Year	Premium Limit Amount for 2011
40 or less	\$340
41 through 50	\$640
51 through 60	\$1,270
61 through 70	\$3,390
71 and older	\$4,240

Certain Withdrawals from Retirement Plans Allow You to Pay Your Long Term Care Insurance on a Tax Free Basis

Qualified public safety employee pension distributions from an eligible retirement plan used to pay for qualified health insurance premiums are tax free, up to a maximum exclusion of \$3,000 annually. A qualified public safety employee is an employee of a State or political subdivision of a State if the employee provides police protection, firefighting services, or emergency medical services for any area within the jurisdiction of such State or political subdivision.

An eligible retirement plan includes a governmental qualified retirement or annuity plan, 403(b) annuity, or 457 plan. The tax free exclusion applies with respect to eligible retired public safety officers who make an election to have qualified health insurance premiums (including long term care insurance) deducted from amounts distributed from an eligible retirement plan and paid directly to the insurer.

Action Step – Pay for Your Long Term Care Insurance Policies on a Tax Free Basis

Instead of the government taking advantage of you, take advantage of the government. **Follow the guidelines above and force the government to effectively pay up to 35% of your long term care insurance policy.** If federal income tax rates increase on January 1, 2013 (as expected), the benefits of paying for your long term care insurance policy on a tax free basis will become even more valuable.

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