BUSINESS SOLUTIONS

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10 ways to affordable long term care insurance

Consider these available options as you plan for the future of your family, your business

It may be a waste of your time to read this article if you are not concerned about protecting your assets or your family. But for those who already have accepted the wisdom of having Long Term Care (LTC) insurance, this article will be of great interest.

It's highly likely someone you know has had a LTC experience. Maybe it has been your own parents or those of your spouse. The care could have been at home, in assisted living or in a skilled care nursing facility. It could have been for a short tem or an extended period of time. Perhaps they were able to fund the care through LTC insurance, or they had to exhaust their life savings and then go on Medicaid. It's easy to see how the latter could occur, as the average cost of a private room in Missouri nursing homes is currently around $55,000 per year and will continue to increase.

Any of us can develop a serious illness or be in an accident at any time. And, once you have a serious medical problem, it may be impossible to get LTC insurance—at a time when it becomes very apparent that you need it. LTC insurance is dramatically less expensive to purchase at younger ages, at a time when it may be hard for any of us to admit that we are indeed getting older and that the need for it one day may be very real—especially as you consider the statistic that 43 percent of those receiving LTC are younger than 65 years old.

The following outlines options available in paying for LTC insurance as well as various considerations that may affect how you wish to plan for your future.

INDIVIDUAL TAXPAYER

After shopping around and deciding on the right mix of LTC benefits (MDIS can help) you decide to purchase LTC insurance. As an individual taxpayer, you are entitled to deduct all or a portion of your premium depending on age based limits and to the extent it exceeds 7.5 percent of your adjusted gross income. Any portion of a LTC premium that exceeds the eligible premium deduction cannot be included as a medical expense.

TABLE 1

AGE	ELIGIBLE PREMIUM DISCOUNTS
40 & ↓	$340
41 to 50	$640
51 to 60	$1,270
61 to 70	$3,390
71 & ↑	$4,240

BUSINESS OWNERS

Certain business owners who are self employed are entitled to deduct 100 percent of LTC premiums up to the age based amounts in Table 1 without regard to exceeding the 7.5 percent threshold. This also applies to the business owner's spouse and dependents. Self employed would include a sole proprietor, a partnership, an LLC, and greater than a 2 percent shareholder of a Subchapter S Corporation. The partnership, LLC, and the Sub S Corp would pay the premium. Then the individual owner/dentist must include the premium amount as taxable income but gets to deduct the premium up to the amount in Table 1 on their personal tax return. Because many dentists structure their practice as one of these entities, this is a more progressive deduction and makes long term care insurance more affordable for themselves and their family. When an employer pays for LTC insurance for employees, this is generally always fully deductible as a business expense.

If the dental practice happens to be a C Corporation, the owner/shareholders can be treated as employees. The practice is entitled to a 100 percent deduction of the entire premium for any of its employees, their spouses or dependents. In this case, Table 1 does not come into play and the benefit does not count as taxable income. In this arrangement, it is key that the shareholders are treated as employees. An employer may discriminate when it comes to providing LTC insurance as long as the decision is made based on job duties and not ownership.

Any employer, no matter what entity structure, may establish different classes of employees and provide different levels of benefit for each class, including LTC insurance. The premiums paid generally are deductible by the employer and not taxable to the employees receiving them, because LTC insurance is considered the same as an accident or health plan.

LIFE INSURANCE

Many companies now are offering life insurance policies with an available rider for long term care. These policies are effectively doing double duty by adding a long term care policy within the life insurance. There are guidelines and limitations that vary with each company, but this may save the expense of having two separate policies. Many regular permanent life policies also allow access to the cash value. Some call this an accelerated benefits feature, and that money can be used to pay for LTC expenses.

ANNUITIES

Not to be left out, some companies also have added the double duty concept to their annuities. Basically, a portion of the annuity income is traded to pay the premium for a LTC policy paired with the annuity. Some annuities also have a provision similar to the life insurance accelerated benefits.

GIFT TAX EXCLUSION

An individual (donor) can purchase qualified LTC policies for family members (recipients) and to the extent the premiums do not exceed the age based amount in Table 1, are not subject to the annual Gift Tax Exclusion. The annual gift tax exclusion for 2011 is $13,000. So if you make a gift and pay the LTC premium for someone else, it does not

count as a part of the $13,000 exclusion if it is within the limits set in Table 1.

HEALTH SAVINGS ACCOUNT

Tax-qualified LTC premiums can be reimbursed through an HSA, tax free, up to the eligible premium amounts listed in Table 1. The HSA contributions could be made through a cafeteria plan; however, LTC premiums cannot be paid directly out of a cafeteria plan. This is yet another way in which LTC premiums can receive special tax treatment.

HEALTH REIMBURSEMENT ARRANGEMENT

HRAs are employer-sponsored programs that pay for medical care expenses. Those expenses include qualified LTC premiums. All of the funds come from the employer. Usually, owners themselves are not able to participate in an HRA unless they are an employee of a c-corporation.

STATE TAX DEDUCTIBILITY

Missouri allows for a 100 percent deduction of all LTC premiums which are non-reimbursed amounts and as long as they are not included in the itemized deductions. The Missouri individual tax return now includes a line for this deduction.

PENSION PROTECTION ACT OF 2006

This includes provisions that enable an owner of life insurance and non-qualified annuities to exchange all or a portion of their policies for an LTC policy without paying taxes on the unrealized gain at the time of the transfer. This is accomplished through a 1035 transfer and could significantly enhance the value of LTC through these tax savings.

CLASS ACT

Even the U.S. Government recognizes the importance of planning for LTC. As a part of Health Care reform legislation, they are rolling out a voluntary, government run, cash benefit LTC program. It became effective January 1, 2011 but has not been fully developed and may not be until 2013. It will be guarantee issue and will require that you pay in for five years before you'll receive benefits. Private carriers will likely be able to offer more features and benefits at cheaper rates because the Class Act may be actuarially unrealistic. But it is another option, and at the least, illustrates the growing awareness of the need for LTC planning.

The statistics of long term care are established and well documented. With the information presented here, you can see you may very well wish to consider LTC coverage. It is a valuable employee benefit and with the executive carve-out ability for key persons can be used as a reward and recruitment and retention tool. If you are considering LTC insurance or have questions, please contact MDIS for help. We have many excellent resources including "*A 3 Step Guide To Smarter Long Term Care Planning*" published by Kiplinger Personal Finance that we would be glad to send you. Visit *www.mdis4dds.com* or call 800-944-7550.

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