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 implications 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 37% Federal Income Tax	($444)		
Available to Pay Long Term Care Insurance	**$756**	**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. [See IRS Notice 2004-50] The maximum amount of premium you can pay on a tax free basis is indicated in the table below.

Age Before the Close of the Taxable Year	Premium Deduction Limit 2017	Premium Deduction Limit 2018
40 or less	$410	$420
More than 40 but not more than 50	$770	$780
More than 50 but not more than 60	$1,530	$1,560
More than 60 but not more than 70	$4,090	$4,160
More than 70	$5,110	$5,200

Certain Withdrawals from Retirement Plans Allow You to Pay Your Long Term Care Insurance on a Tax Free Basis
With the introduction of the Healthcare Enhancement for Local Public Safety Officers (HELPS) Act, qualified retired public safety employees can make tax free distributions of up to $3,000 per year from qualified retirement plans to help pay for long term care insurance. 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(b) 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 37% of your long term care insurance policy.**

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