Long-Term Care
SALES KIT

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LONG TERM CARE

Most Americans Remain Unprepared For The Possibility Of Extended Care

Barriers to planning include lack of awareness, uncertainties about paying for costs and possible solutions

A new survey from Thrivent reveals a lack of awareness of the critical need to plan for long term care. Access the survey here.

MINNEAPOLIS (June 8, 2021) — Despite the COVID-19 pandemic, a new survey from diversified financial services leader Thrivent found that perceptions toward extended care planning haven't changed and a significant percentage of Americans have not documented their plans should the need for extended care arise.

The survey defined extended care as non-medical care for those who need assistance with basic daily activities such as dressing, bathing or using the bathroom due to a physical or cognitive impairment. This research was conducted in partnership with data intelligence company Morning Consult and polled 2,200 adults across the country between March 11-15.

Although the pandemic magnified the impact of long-term care on individuals and their caregivers' daily lives, more than half of survey respondents (51%) said COVID-19 did not change their approach to extended care planning at all. This is especially concerning when considering the survey's broader insights, which found that 70% of Americans have not documented their plans for extended care. Overall these survey results reinforce the lack of awareness and the need for additional conversation around this important topic that will statistically affect a majority of Americans and their families.[1]

Everyone Deserves A Plan

According to Thrivent's 2021 Extended Care Planning Survey, a mere 18% of respondents said COVID-19 made them realize having a plan is more important than ever. Only 12% said the pandemic led them to have a conversation with their spouse and or/immediate family about extended care for themselves or a loved one.

"At Thrivent, we believe everyone deserves a plan," said Thrivent president and CEO **Terry Rasmussen**. "Living through this pandemic has only reinforced the importance of having a comprehensive financial strategy. Yet, as our survey reveals, a central component to that strategy appears to be missing: an extended care plan. As the pandemic has shown us, we all need to be prepared for future care – both for ourselves and our loved ones. The time to put together a plan is right now."

Survey findings reveal 70% of Americans don't have a documented extended care plan in place for themselves or a family member. In addition, 78% of Americans over the age of 45 report they have no plan in place, even though the likelihood of needing extended care increases with age. Furthermore, 59% of Americans haven't spoken to anyone about creating such a plan.

Many also are unsure about how they would fund their care: 75% of Americans said it would be difficult to pay for long-term care and more than half (52%) revealed they wouldn't be able to fund their care if they needed it today.

Disparities exist between women and men when it comes to talking about and planning for extended care

- Despite being the primary caregivers in their families, the survey found that women appear to be less prepared than men when it comes to planning for future care:
- 77% of women don't have a documented extended care plan for themselves or a loved one compared to 64% of men.
- 63% of women haven't had conversations with family members about an extended care plan compared to 55% of men.

When it comes to covering costs, 62% of women said they wouldn't be able to fund their care if they needed it today compared to 42% of men.

“Based on our survey findings, it’s clear more education is needed around the importance of extended care planning,” said **Steve Sperka**, vice president of health insurance products at Thrivent. “When people have a documented plan outlining wishes for their care, they are taking an important step toward giving themselves and their loved ones financial clarity at a time when they may need it the most.”

Developing A Plan

Thrivent offers the following suggestions for people who are looking to develop an extended care plan:

1. Consider care options

Individuals should think about what they want their personal extended care plan to look like. A comprehensive plan should outline the following: 1) what should happen if long-term care is needed; 2) the primary decision-makers involved in executing care; 3) living preferences and; 4) how to pay for care.

When considering the approaches to extended care, there are many different options to fit a variety of needs. This can include anything from home care and assisted living to adult day care and nursing home care. Don’t forget to consider the training and support or the home improvement modifications that may be needed to help individuals remain at home.

2. Have a conversation with family

Once individuals have carefully thought about their plan, they should set aside time to speak with their family about it. It’s important to review everything in detail so there’s no question about the individuals’ wishes if something were to happen to them.

If needed, individuals should take time to make changes to their plan based on additional input and feedback.

This is an especially important consideration for women. Studies show that not only are women typically the primary caregivers in their households, but they also spend a considerable amount of time providing that care.[2] This may come at the expense of thinking about their own needs. As Thrivent’s survey underscores, there’s an opportunity for women to engage in conversations with their loved ones and understand available care options. By being proactive with extended care planning, they can feel confident knowing they’re ready for the future, no matter what happens.

When people have a documented plan outlining wishes for their care, they are taking an important step toward giving themselves and their loved ones financial clarity at a time when they may need it the most...

3. Understand the financial impact

People can’t act upon their plans if they haven’t determined how they’ll cover the expenses.

As part of the planning process, individuals should consult with their financial professional to understand their current picture, how extended care fits in broadly with their financial strategy and options to fund their care.

Extended care isn’t a one-size-fits-all. There are different costs for different options, and a financial professional can help people understand how to plan for the costs associated with extended care. The survey revealed this level of preparation can pay off: People with a financial strategy are 2.7 times more likely to have an extended care plan in place than those without. 49% of respondents believe extended care should be included in financial management plans, only 18% think it should be separate and 32% have no opinion.

4. Take steps to put the plan together

Don’t wait until a crisis occurs to act. Once details are ironed out, people should move immediately to writing out their plans, communicating their wishes to family and making decisions about how to fund their plan. It’s beneficial to consider working with a financial professional who can provide guidance and support at this critical stage.

As the COVID-19 pandemic has highlighted, the unthinkable can happen quickly and without notice. It’s prudent for people to use this time while they’re healthy to put thought into their extended care plan and share it with loved ones. By doing so, the survey findings suggest they’ll feel closer to achieving financial clarity, enabling a life full of meaning and gratitude.

[1] Family Caregiver Alliance – Selected Long-Term Care Statistics: https://www.caregiver.org/resource/selected-long-term-care-statistics/
[2] Family Caregiver Alliance – Women and Caregiving: Facts and Figures: https://www.caregiver.org/resource/women-and-caregiving-facts-and-figures/

About Thrivent

Thrivent is a diversified financial services organization that helps people achieve financial clarity, enabling lives full of meaning and gratitude. Thrivent and its subsidiary and affiliate companies serve more than 2.3 million clients, offering advice, insurance, investments, banking and generosity products and programs over the phone, online as well as through financial professionals and independent agents nationwide. Thrivent is a Fortune 500 company with $162 billion in assets under management/advisement (as of 12/31/20). Thrivent carries an A++ (Superior) rating from AM Best, a credit rating agency; this is the highest of the agency’s 16 ratings categories and was affirmed in June of 2020. Rating based on Thrivent’s financial strength and claims-paying ability. Does not apply to investment product performance. For more information, visit Thrivent.com. You can also find us on Facebook and Twitter.

About Morning Consult

Morning Consult is a global data intelligence company delivering insights on what people think in real time. By surveying tens of thousands across the *globe every single day, Morning Consult is unmatched in scale and speed: It determines the true measure of what people think and how their decisions impact business, politics and the economy. Industry leaders rely on Morning Consult's proprietary technology and analysis for real-time, intelligent data to transform information into a competitive advantage.*

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Get More Out of Life

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Help Your Clients Protect Their Assets and Leave an Inheritance

Many people work a lifetime to accumulate assets to pave the way for a comfortable retirement and to leave an inheritance for their children. The last thing anyone wants is to see their hard-earned savings depleted to pay for long-term care services.

Long-term care services, however, can quickly erode a client's assets. Almost 70 percent of people over age 65 will require chronic care later in life – for an average of three years. And, 20 percent of those individuals will need that care for longer than five years.*

Consider the costs:**

- The national average for a semiprivate room in a nursing home is $86,764 per year
- If your client needs three years of long-term care services, that equals $260,292
- If your client needs five years of long-term care services, that equals $433,820

And, those are based on 2016 numbers. Think about what those numbers would be 25 years down the road, assuming an average inflation rate of 3 percent, which is just under the average U.S. inflation rate of 3.27 percent:***

- The national average for a semiprivate room in a nursing home would be $181,665 per year
- If your client needs three years of long-term care services, that equals $544,994
- If your client needs five years of long-term care services, that equals $908,323

A long-term care rider on a life insurance policy is a good way for your clients to:

- Protect their loved ones in case of unexpected long-term care needs,
- Plan for their long-term care funding needs, and
- Provide a legacy for the loved ones they leave behind

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Case Study

Nick has done well for himself and plans to use his accumulated wealth for retirement income. When he passes away, he also plans to leave an inheritance for each of his three children.

At age 75, Nick becomes chronically ill and requires long-term care services. His remaining assets are worth $1 million. For simplicity, we'll assume that Nick's nursing home cost remains the same throughout his stay.

Consider two different scenarios:

Scenario 1:

Nick purchases a life insurance policy with a long-term care rider

At age 50, Nick purchases a $1 million Life Protection Advantage℠ policy. He chooses to add the LTC Rider with the option to accelerate the entire $1 million for long-term care services at a monthly maximum rate of 2 percent of the maximum benefit per month. This allows him to be reimbursed for up to $20,000 in long-term care expenses per month.

- When he needs long-term care services at age 75, he incurs qualifying expenses of $15,138.75 per month ($181,665 per year) for a semiprivate room in a nursing home. He resides there for four years before he passes. Over this four-year period, he is reimbursed for his four years of long-term care, which totals $726,660
- When he passes, his beneficiaries receive the remaining amount of $273,340 as a death benefit. He also still has his remaining $1 million in assets. When this $1,273,340 is divided among his three children, each will receive $424,446

Nick's planned premium on his Life Protection Advantage policy was approximately $11,000 per year. Even considering premiums paid, this planning strategy still makes sense. Plus, if Nick had died prior to needing long-term care, his beneficiaries would have received the entire $1 million as a death benefit.

Scenario 2:

Nick doesn't plan ahead for long-term care expenses

At age 50, Nick chooses not to plan ahead for the possibility of a long-term care need. By not planning ahead, he ultimately makes the choice to self-insure.

- When he goes into a nursing home at age 75, he starts taking $181,665 per year from his savings to pay for a semiprivate room. He resides there for four years before he passes. Over this four-year period, he spends $726,660 for long-term care services
- His long-term care expenses reduce his $1 million in assets down to $273,340. Each of his three children receives an inheritance of $91,000

And, depending on the types of assets he had, he could end up paying unexpected capital gains tax, income tax and potential surrender charges generated from asset liquidation. Or, he could miss out on any returns the liquid assets were expected to generate.

Summary

By choosing the LTC Rider on his life insurance plan, Nick's premium investment resulted in **each** of his three children ending up with significantly more inheritance than if Nick hadn't planned for long-term care expenses.

Help clients protect their assets and preserve their independence. Show them the value of an LTC Rider on their life insurance policy. Learn more about the LTC Rider at MutualofOmaha.com/ltc-rider.

* Source: U.S. Department of Health and Human Services, National Clearinghouse for Long-Term Care Information, October 2017.
** Source: Mutual of Omaha's Cost of Care Study, conducted by Long-Term Care Group, 2015, released 2016.
*** Source: U.S. Bureau of Labor Statistics, Average inflation rate measurement from 1914-2018.

Long-Term Care Rider
Available on Income Advantage℠ IUL and Life Protection Advantage℠ IUL policies

LTC Riders – Reimbursement vs. Indemnity

While United of Omaha's LTC Rider follows what is known as a reimbursement rider model, other life insurance companies have LTC riders that use an indemnity model. Knowing the difference is important. The following information will help you get a better understanding of the two designs.

How LTC Rider Benefits are Taxed

First, it's beneficial to have an understanding of how LTC riders are taxed. LTC riders are designed to qualify for favorable federal income tax treatment under Section 7702B of the Internal Revenue Code, as amended. This favorable tax treatment extends up to the greater of the HIPAA limit, or actual long-term care expenses.

The IRS HIPAA limit is currently $400 per day for 2021. That results in $12,000 per month (for a 30-day month).

Chances are, your clients who purchase this rider won't need to use the benefit for 20-30 years from now. If we assume the 2021 limit increases for inflation at 3 percent, the daily HIPAA limit in 25 years would be $837, or $25,110 per month.

Indemnity vs. Reimbursement: What's the difference?

Indemnity – Policyowner can take rider benefits up to the maximum monthly benefit limit regardless of the actual expenses incurred.

Reimbursement – Policyowner is reimbursed based on actual expenses incurred by the insured, up to the maximum monthly benefit limit.

Although this makes it seem like an indemnity rider might be the best choice, most indemnity riders have a "real maximum limit" of 1x the HIPAA limit. If we look ahead 25 years, the monthly HIPAA limit (at 3 percent inflation) would be $25,110. This would be the max benefit even if they purchased a $50,000 monthly benefit. The result: The client may never get to take an amount up to the indemnity limit they purchased unless the IRS significantly changed the HIPAA limits or there is substantial inflation.

Some indemnity carriers have a limit that is a multiple of the HIPAA limit, for example, 2x the HIPAA limit. However, keep in mind that the IRS only automatically allows benefits up to 1x the HIPAA limit to be received untaxed. If the client wanted to take more than the HIPAA limit, they would have to 'prove expenses' to receive favorable tax treatment. So, even though they don't have to submit receipts to the life insurance company, they will still have to keep track of their receipts to prove expenses to the IRS.

With our reimbursement rider, the client can take up to the full monthly benefit as long as they have qualifying expenses. We don't restrict based on HIPAA limits. Your clients will have to prove expenses to get reimbursed, but because there is no HIPAA limit, they may be able to take more benefit from our rider than from a company with a 1x HIPAA limit. And, because your client has to submit receipts, their records will already be 'in order' to prove expenses to the IRS, if needed.

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A Case Study: Maximum Benefit Limits

Jackie purchases a life insurance policy with a Long-Term Care Rider that has a $50,000 monthly benefit. Twenty-five years from now, she incurs covered expenses of $28,000 per month.

- Under an indemnity policy with a 1x HIPAA limit, the most she could receive in LTC Rider benefits is $25,110 (even if she was paying for a max benefit of $50,000 per month). This means she would need to dip into her personal savings for the additional $2,890 per month
- Under a reimbursement policy without a HIPAA limit, she could get reimbursed for her actual expenses of $28,000 (all income-tax free)

By having more benefit available, Jackie gains flexibility and freedom. She can choose which facility she wants to go to (since she does not need to feel she is restricted to a facility that charges less than the HIPAA limit). She also doesn't need to deplete her personal assets.

One might argue that an indemnity rider is preferable to a reimbursement rider because if the client's expenses are less than their maximum monthly limit, they can take more than their actual expenses.

While this is true, keep in mind the reason your client is purchasing this LTC Rider. The goal isn't to get "extra money." It's to cover LTC expenses so they don't have to deplete their personal assets to pay for long-term care services. The more benefit the client takes in excess of their actual LTC expenses, the less time their LTC Rider benefits will last.

A Case Study: Duration of Benefits

Adam purchases a $1 million life insurance policy with a $1 million LTC Rider benefit pool, and a 2 percent monthly acceleration option. He can take up to $20,000 per month ($240,000 per year). If his actual expenses are $16,000 per month ($192,000 per year):

- A reimbursement policy would last 62.5 months (5 yrs. 2 ½ months)
- An indemnity policy where he is taking the full $20,000 would only last 50 months (4 yrs. 2 months)

At first glance, an indemnity rider may seem like the obvious choice, that your client has access to greater benefits and that they won't need to prove expenses. But once you've taken the time to delve into the product details and considered real-life situations, a reimbursement rider may prove to be more beneficial.

Learn more at MutualofOmaha.com/ltc-rider.

A Comparison of Riders

	United of Omaha	AIG	AXA	John Hancock	Nationwide Mutual	Pacific Life	Transamerica	Prudential	Symetra
Monthly Benefit Amount	1%, 2% or 4% of benefit pool	2% or 4% of benefit pool, or IRS per diem at claim	1%, 2% or 3% of benefit pool	1%, 2% or 4% of benefit pool	2% of benefit pool	2% or 4% of benefit pool	2% of death benefit	2% of death benefit	2% of death benefit
Max Cum. Benefit Pool (subject to DB limits)	$2 million ($1.25 million for 4% option)	$3 million	$5 million	$5 million	Base Policy Specified Amount	2% - $3 million 4% - $1.5 million (< 65); $750k (65+)	Base Policy Specified Amount	$5 million	$250,000 or 50% of the death benefit
Max Monthly Benefit	Lesser of actual LTC expenses or elected percentage	Lesser of elected % or 100% of HIPAA per diem limit per month	Lesser of elected %, $50,000 or 200% of HIPAA per diem limit per month	Lesser of actual LTC expenses or elected percentage	100% of HIPAA per diem limit per month	Lesser of elected %, $50,000 or 125% of HIPAA per diem limit per month	100% of HIPAA per diem limit per month	Lesser of 100% of HIPAA per diem limit, or per diem at issue comp. at 4% annually	100% of HIPAA per diem limit per month
Rider Type	LTC - §7702B	Chronic Illness - §101(g)	LTC - §7702B	LTC - §7702B	LTC - §7702B	LTC - §7702B	LTC - §7702B	Chronic Illness - §101(g)	Chronic Illness - §101(g)

Long-Term Care Rider

Available on Income Advantage℠ IUL and Life Protection Advantage℠ IUL policies

Get More Out of Life

With a Long-Term Care Rider

The Back-up Plan: A Chronic Illness Rider

You've convinced your client of the need for both life insurance and long-term care planning. You've provided him with the information on how a life insurance policy with a long-term care rider works and he is ready to buy a policy.

He signs the app but then something unexpected happens. Your client, who seemed in fair health, is approved for the life insurance coverage, but is ineligible for the long-term care rider.

So, now what?

What happens next helps differentiate Income Advantage℠ IUL and Life Protection Advantage℠ IUL from our competitors. We offer **both** a long-term care (LTC) rider and a chronic illness rider. If your client doesn't qualify for the Long-Term Care Rider, we still issue the policy with the Chronic Illness Rider – at no additional cost and with no additional underwriting.

With the Chronic Illness Rider, if your clients are chronically ill (can't perform two of six activities of daily living) or have severe cognitive impairment, they can accelerate a portion of the death benefit early. This can provide funds for your clients to pay for long-term care expenses – or for whatever else they choose. By having these funds, clients can avoid spending down personal assets to pay for their long-term care services.

Chronic Illness Rider – What You Should Know:

- Benefits are available as a lump-sum payout, up to the IRS per diem limit
- Accelerated benefits can be taken once every 12 months
- No upfront cost – an actuarial discount and flat $100 fee are charged only if your client uses the benefit
- Maximum cumulative chronic illness benefit is up to 80 percent of the policy face amount at the time of the first acceleration request (with a maximum of $1 million)

What is the Actuarial Discount?

When insurance companies price the cost of life insurance, they plan on the beneficiary receiving the full death benefit upon the insured's death. Since the insured is taking a portion of his or her death benefit early, the client is getting an advance payment. The actuarial discount is based on the insured's life expectancy and the Moody's Corporate Bond Yield average, and it's our way of taking into account the time value of money between the advance payment date and the insured's actual life expectancy (when the insured is expected to die). The shorter your client's remaining life expectancy, the less his or her actuarial discount will be.

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Case Study

Jeffrey purchased a $1 million Income Advantage policy at age 50. Although he didn't qualify for the Long-Term Care Rider, his policy automatically included the Chronic Illness Rider. Some years later, he is diagnosed with a chronic illness and is unable to perform two of six ADLs. His doctor estimates he has two years to live. Jeffrey has a maximum total acceleration limit of $800,000, and has requested a $100,000 acceleration benefit.

In Jeffrey's case, with a two-year life expectancy, his actuarial discount is 9 percent. This means, since he requested a $100,000 acceleration, he will receive $90,900. He can use this benefit to: pay medical bills, stop working and spend time with family, take a dream vacation with his loved ones, or even to pre-plan and pre-pay his funeral.

Calculating Jeffrey's Benefit	
Requested acceleration	$100,000
Minus the 9% actuarial discount (4.5% discount rate X 2-year current life expectancy)	$9,000
Minus the flat charge	$100
Acceleration amount	**$90,900**

After taking his accelerated benefit, Jeffrey still has $900,000 in remaining death benefit and $700,000 in remaining accelerated death benefit option.

It always feels good to have a back-up plan. When your clients don't qualify for the LTC Rider, you still can help them address these potential expenses with the Chronic Illness Rider.

Learn more at MutualofOmaha.com/ltc-rider.

Income Advantage℠ IUL and Life Protection Advantage℠ IUL

Chronic Illness Rider or LTC Rider

Which is Right for Your Client?

When your clients purchase an Income Advantage℠ or Life Protection Advantage℠ Indexed Universal Life insurance (IUL) policy, they have options that allow them to take all or a portion of their death benefit early if they become chronically ill. You may wonder which one is best for your client. Like many things in life, it depends on the situation.

The information provided will help you understand how each rider works, and arm you with the information you need to help your clients choose the option that best suits their needs.

	Chronic Illness Rider	Long-Term Care Rider
Availability	All ages, all risk classes	Insureds ages 30-79, up to table 4
Additional Underwriting	None; this rider is automatically included with all policies at issue.	Requires additional underwriting to qualify for the LTC Rider.
Cost	No additional up-front charges; however, if used, the benefit amount is reduced by an actuarial discount and a flat $100 fee. Because the actuarial discount is calculated based on the insured's remaining life expectancy and the current Moody's Corporate Bond Yield average, the cost is not known until the time the benefit is requested. If your clients never use the benefit, they won't be charged.	Cost is known up front. It's a recurring monthly cost of insurance rate that cannot increase. The client will be charged regardless of whether the client ever uses the benefit. Rider charges are waived once the client goes on claim.
Maximum Benefit Level	Maximum total benefit is 80% of the specified amount at the time of the first benefit payment (up to $1 million). At the time of claim, the client decides how much benefit they need and it is available in a lump sum with no restrictions on the use of the benefit. Limited to HIPAA maximum at time of claim.	Maximum total benefits are based on the amount chosen at time of issue (the benefit pool). Max of $2m for 1% and 2%, and $1.25m for 4%. Qualifying LTC expenses are reimbursed and there is no option to take a lump sum.
Benefit Period Frequency	Once every 12 months, so clients may need to estimate the expenses they will incur over the coming year.	Benefit can be paid until the maximum total benefit pool has been exhausted.
Qualification for Benefits	Chronically ill; defined as substantial cognitive impairment or the insured's inability to perform 2 of 6 Activities of Daily Living.	Chronically ill; defined as substantial cognitive impairment or the insured's inability to perform 2 of 6 Activities of Daily Living; and, has qualifying long-term care expenses.
Benefit Type	Indemnity – There are no restrictions on the use of the benefits. The policyowner must only provide proof that the insured is chronically ill.	Reimbursement – LTC Rider reimburses the policyowner for qualified LTC expenses. The policyowner must provide proof the insured received covered services.
Income taxation	Income tax-free benefits, qualifies under Section 101(g) of the Internal Revenue Code.	Income tax-free benefits, qualifies under Section 7702B of the Internal Revenue Code.
Death Benefit	Any remaining death benefit not accelerated will be payable to the beneficiary.	Any remaining death benefit not accelerated will be payable to the beneficiary.

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Case Study

A male client, in preferred health, purchases a $1 million life insurance policy at age 50 and becomes chronically ill at age 75. His LTC expenses are $16,000 per month ($192,000 per year).

Let's look at three hypothetical scenarios to determine the cost and benefit differences between an LTC Rider with a $1 million max benefit using a 2 percent monthly acceleration option and a Chronic Illness Rider with a max benefit of 80 percent of the specified amount.

Scenario 1:

Let's say he has five years life expectancy left

With the LTC Rider

Would need to take $192,000 in LTC Rider benefits to get $192,000

25 years of LTC Rider COI charges = $26,000*

Remaining Death Benefit = $808,000

Remaining Acceleration Amount = $808,000

With the Chronic Illness Rider

Would need to take $247,870 in Chronic Illness Rider benefits to get $192,000

Cost = $55,870 (22.5% discount rate at 4.5% Moody's Corporate Bond Yield and $100 fee)

Remaining Death Benefit = $752,130

Remaining Acceleration Amount = $552,130

Scenario 2:

Now, let's say he has two years life expectancy left

With the LTC Rider

Would need to take $192,000 in LTC Rider benefits to get $192,000

25 years of LTC Rider COI charges = $26,000*

Remaining Death Benefit = $808,000

Remaining Acceleration Amount = $808,000

With the Chronic Illness Rider

Would need to take $211,100 in Chronic Illness Rider benefits to get $192,000

Cost = $19,100 (9% discount rate at 4.5% Moody's Corporate Bond Yield and $100 fee)

Remaining Death Benefit = $788,900

Remaining Acceleration Amount = $588,900

Scenario 3:

Now, let's assume he died at age 75 without ever needing long-term care services

With the LTC Rider

25 years of LTC Rider COI charges = $26,000*

Remaining Death Benefit = $1 million

With the Chronic Illness Rider

Cost = $0

Remaining Death Benefit = $1 million

* The LTC Rider COI rate is applied to the policy's net amount at risk, which means that even through the COI rate is guaranteed, the actual rider charges will vary. The rider charges shown are approximate and for illustrative purposes only.

Your clients' individual situations will determine which long-term care services solution is the best fit for them. Become familiar with the differences between the Long-Term Care Rider and the Chronic Illness Rider so you can help your clients with this important decision.

To learn more, visit MutualofOmaha.com/ltc-rider.

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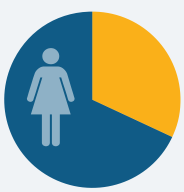
Long-term care risk may be greater for women than men*

An unexpected health-related event requiring long-term care is a risk that could impact you and your family financially and emotionally. When a loved one needs care, it's often sudden, and the burden of providing care typically falls on a daughter, a wife or a sister. Many times, for the caregiver, the financial and emotional risk is compounded by career sacrifice and potentially health-related issues.

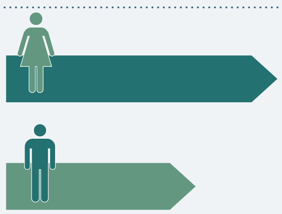
Unfortunately, long-term care risk may be far greater for women than men, because women face a higher probability of needing care* or becoming a caregiver.[1] This is why every woman should consider preparing for their future and encouraging their spouses, parents, in-laws and close relatives to have a plan.

Women are more likely than men to need long-term care

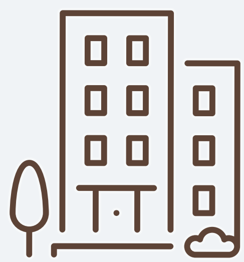
Nearly 6 in 10 women will need extensive care after the age of 65.[2]



More than **two-thirds of the long-term care** population in nursing homes and residential communities are women.[4]



Women typically need care for **1.5 years longer** than men.[5]



Women have a higher incidence of needing nursing home, residential and hospice care.[3]

Women are more **genetically predisposed** to develop Alzheimer's disease.[6]

*Centers for Disease Control and Prevention, Long-Term Care Providers and Services Users in the United States: Data From the National Study of Long-Term Care Providers, 2013–2014," *Vital and Health Statistics*, Series 3, No. 38, https://www.cdc.gov/nchs/data/series/sr_03/sr03_038.pdf, February 2016.

[1]LIMRA Secure Retirement Institute, "Challenges for Caregivers: How Employment Leave Impacts Women's Retirement Savings," *Advisor Magazine*, http://www.lifehealth.com/half-working-women-taken-leave-care-family/, September 2016.

[2]Howard Gleckman, "Women Will Face Especially High Long-Term Care Risks As They Age," *Forbes Personal Finance*, https://www.forbes.com/sites/howardgleckman/2015/12/03/women-will-face-especially-high-long-term-care-risks-as-they-age/#84405012a8d8, December 3, 2015.

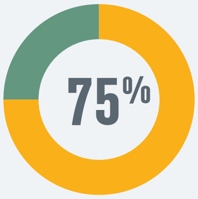
[3]See asterisk note above, Table 4 in Appendix B, page 105.

[4]U.S. Census Bureau, "Current Population Survey, Annual Social and Economic Supplement, Table A1. Marital Status of People 15 Years and Over, by Age, Sex, and Personal Earnings, 2015," *ACL*, https://aoa.acl.gov/Aging_Statistics/Profile/2015/5.aspx, November 2015.

[5]U.S. Department of Health and Human Services, "How Much Care Will You Need," LongTermCare.gov, http://longtermcare.acl.gov/the-basics/how-much-care-will-you-need.html, last modified February 21, 2017.

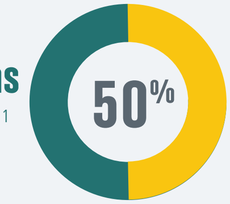
[6]Alzheimer's Association, "2016 Alzheimer's Disease Facts And Figures," *alz.org*, http://www.alz.org/facts/overview.asp, January 2017

Women are more likely than men to become caregivers

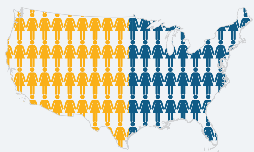


of the time, women are the primary caregiver within the household.[1]

Women dedicate as much as more time providing care than males.[1]



Half of the U.S. female workforce



has taken leave to care for a family member, and **50%** are concerned it will negatively impact their retirement financial security.[2]

The cost to female caregivers could amount to as much as **$325,000** in lost wages and Social Security benefits.[3]

The physical stress of providing care may contribute to health risk and the long-term care needs of the female caregiver.[4]

Learn more about planning to protect your future.

Contact your advisor today.

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1 Family Caregiver Alliance, "Caregiver Statistics: Demographics," *FCA*, https://www.caregiver.org/caregiver-statistics-demographics, January 2016.

2 LIMRA, "Half of Working Women Have Taken Leave to Care for Family," http://www.limra.com/posts/pr/news_releases/half_of_working_women_have_taken_leave_to_care_for_family.aspx, September 20, 2016.

3 Family Caregiver Alliance, "Women and Caregiving: Facts and Figures," *FCA*, https://caregiver.org/women-and-caregiving-facts-and-figures, revised February 2015.

4 Family Caregiver Alliance, "Women and Caregiving: Facts and Figures," *FCA*, https://www.caregiver.org/print/240, February 2015.

The purpose of this communication is the solicitation of insurance. A licensed insurance agent/producer will contact you.

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WOMEN AND LONG-TERM CARE

UNDERSTANDING THE UNIQUE ISSUES WOMEN FACE IN CAREGIVING AND LONG-TERM CARE PLANNING MAY HELP YOU SAFEGUARD YOUR FAMILY'S FINANCIAL FUTURE.

A RECENT STUDY CONDUCTED BY LINCOLN FINANCIAL HIGHLIGHTS THE ISSUES WOMEN FACE BOTH AS LONG-TERM CAREGIVERS AND NEEDING CARE THEMSELVES.[1]

Women are more likely than men to become caregivers.

- 70% of women surveyed are concerned they would not be able to provide adequate care if somebody in their family needed it.
- While 97% of women surveyed who have actually been caregivers say they are glad to have helped, 66% say they had no idea how demanding it would be.

66% of all family caregivers are women.[2]

When women themselves need long-term care, many have concerns about imposing on others.

- 73% of women would prefer home-based care if needed, but would feel reluctant to put that responsibility onto their families, particularly their children.

65% feel children should not feel obligated to provide care.

69% would be reluctant to ask their children to provide care.

54% would feel embarrassed by having their children provide care.

Women are not sure how they would pay for care if they needed it.

- Only 28% of women in our survey feel confident they would have the financial resources to pay for long-term care expenses in the future.
- 98% of women agree that families ought to discuss plans for how to pay for long-term care before it is actually needed, but fewer than half (42%) have talked with a spouse.

48% of women caregivers in our survey reported **waiting too long** before discussing plans and options for long-term care.

1. Versta Research, "2017 LTC Marketing and Thought Leadership Research. Findings from Surveys of Advisors and Consumers," October 2017. For a printed copy, please call 877-ASK-LINCOLN. Information presented here is from among those polled in our survey.
2. Family Care Alliance, "Women and Caregiving: Facts and Figures," *FCA*, https://www.caregiver.org/women-and-caregiving-facts-and-figures, updated February 2015.
3. The Lincoln Financial Group 2017 Caregiving Omnibus Study, http://newsroom.lfg.com/sites/lfg.newshq.businesswire.com/files/doc_library/file/Nov2017_LFG_LTC_Study__Final2_11.01.17.pdf.

WOMEN AND LONG-TERM CARE

THE TIME TO START PLANNING FOR LONG-TERM CARE IS WELL BEFORE IT IS NEEDED.

GET ON THE SAME PAGE WITH YOUR FAMILY.

CARE Learn more about the costs of care at www.WhatCareCosts.com/lincoln. Enter sponsor code: Lincoln.

CAREGIVING Share your expectations for daily living.

HEALTH-RELATED DECISIONS Designate someone to discuss treatment with your doctors.

FINANCES Decide who will manage your finances and pay household bills.

LEGAL MATTERS Ensure you have a living will, a current will, a durable power of attorney, and a power of attorney for healthcare.

THE IMPORTANT ROLE OF FINANCIAL ADVICE

- Financial professionals can play a vital role in long-term care planning for women, helping to facilitate conversations and create a holistic financial plan.
- Three out of four financial professionals we surveyed tell us it can be valuable to meet with clients along with children or extended family when preparing for long-term care needs.

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Unless otherwise sourced, all statistics cited in this document reference the Lincoln Financial Group survey, "2017 Long-Term Care Thought Leadership Research, Findings from Surveys of Advisors and Consumers," Versta Research, December 2017.

Versta Research conducted a survey of 1,012 U.S. adults through a national online research panel used exclusively for polling and research. To ensure full representation of the U.S. adult population, sampling was stratified by age, gender, sexual orientation, race, ethnicity, region, and income. The sample was then weighted to match U.S. Census data on age, gender, race, ethnicity, and region. The survey was fielded from August 28 to September 14, 2017.

1. Versta Research, "2017 LTC Marketing and Thought Leadership Research. Findings from Surveys of Advisors and Consumers," October 2017. For a printed copy, please call 877-ASK-LINCOLN. Information presented here is from among those polled in our survey.
2. Family Care Alliance, "Women and Caregiving: Facts and Figures," FCA, https://www.caregiver.org/women-and-caregiving-facts-and-figures, updated February 2015.
3. The Lincoln Financial Group 2017 Caregiving Omnibus Study, http://newsroom.lfg.com/sites/lfg.newshq.businesswire.com/files/doc_library/file/Nov2017_LFG_LTC_Study__Final2_11.01.17.pdf.

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Start conversations that matter

Help your female clients plan more confidently for their future

Having conversations with your clients about long-term care is important, but discussing this topic with your female clients is critical. Why? Because ***roughly 58% of women will need long-term care in their lives***.[1] They're also more likely than men to become care providers for their loved ones.[2]

Yet research shows a planning gap in the marketplace with very few women having any type of long-term care plans. You can change this by initiating long-term care planning conversations with your female clients. Getting the conversation started helps a plan evolve organically.

We can help you simplify long-term care conversations

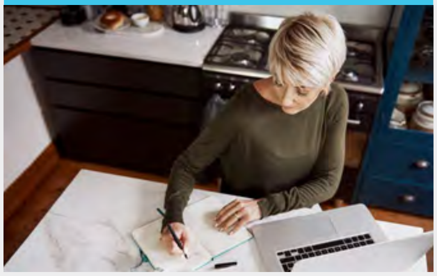
Using this guide, you can lead a discussion around four key long-term care topics: proactive planning, understanding LTC, family focus and cost of care.

Proactive planning

Understanding LTC

Family focus

Cost of care



[1] Lananh Nguyen and Bloomberg, "U.S. Women Control $14 Trillion — but Most Wealth Managers Still Ignore Them," fortune.com, April 11, 2019, https://fortune.com/2019/04/11/women-money-assets-wealth-management-financial-advisers/.

[2] Maddy Perkins, "Women are not a niche: Why financial advisors must look beyond gender," financial-planning.com, April 30, 2019, https://www.financial-planning.com/news/why-financial-advisors-should-look-beyond-gender.

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Proactive planning

Conversation starters	Talking points
Share your thoughts with me about long-term care.	Clients have misconceptions about LTC, such as: ▪ Believing it won't impact them ▪ Thinking they've saved enough to cover expenses ▪ Misunderstanding who bears the responsibility for paying ▪ Assuming their family will take care of them
Who do you think needs a long-term care plan?	Everyone needs an LTC plan in place, including someone who: ▪ Wants to reduce the risk of depleting their assets ▪ Wishes to lessen the burden on their loved ones ▪ Would like to plan ahead for peace of mind
Should you need care, where would that funding come from?	Your client's retirement plans can easily be disrupted by a long-term care event. To help them avoid this: ▪ Let them know that it's better to plan sooner for LTC ▪ Remind them that Lincoln Financial works with clients ages 30–80 on LTC planning ▪ Go over funding options for care down the road

Understanding LTC

Conversation starters	Talking points
Have you had any personal experiences as a caregiver?	Allowing your client to share her personal stories can illustrate: ▪ How women are more at risk than men to become caregivers ▪ The effect that caregiving can have on loved ones ▪ The need for a caregiver alternative, such as a care manager
Are you familiar with different care environments and services provided during an LTC event?	Help her understand what long-term care encompasses, such as care facilities: ▪ In-home care ▪ Assisted living ▪ Memory care facility ▪ Nursing home
How do you think an LTC event would impact your family?	Without a plan in place, an LTC event can take a toll on a family: ▪ Emotionally ▪ Financially ▪ Physically ▪ Administratively

Family focus

Conversation starters	Talking points
Tell me about your parents and their health.	By listening to her talk about her parents, you can learn about: ▪ Longevity and risk in her family ▪ The type of care she may need ▪ How her parents' LTC needs were handled
Who would you trust to make care decisions and advocate for your needs?	Creating a care circle for your client's LTC needs can: ▪ Keep loved ones and caregivers informed and connected ▪ Ensure quick communication across the social network ▪ Offer reassurance to your client since they'll know their plans are formalized
Let's plan a family discussion to go over your LTC plans.	Many clients want to protect their legacy. They can do this by: ▪ Allocating money for their LTC, should they need it ▪ Choosing an LTC solution that offers a legacy option

Cost of care

Conversation starters	Talking points
Are you aware of the costs of long-term care?	Americans underestimate the cost of LTC services by half. By visiting whatcarecosts.com, your clients can: ▪ Learn the actual and projected costs for the type of care they want ▪ Research care available wherever they may be planning on retiring ▪ See how much they may spend without an LTC strategy in place
Is it important for you to leave a legacy to your loved ones?	Many clients want to protect their legacy. They can do this by: ▪ Allocating money for their long-term care, should they need it ▪ Choosing an LTC solution that offers a legacy option
Let's look at funding options for your LTC plan.	With hybrid long-term care solutions, your client can: ▪ Identify sources from assets or income to pay for the plan ▪ Choose from flexible payment options, including one-time payments and monthly options

For more resources on long-term care planning, reach out to your Lincoln representative.

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The SECURE Act

An opportunity for inherited qualified funds

On December 20, 2019, Congress passed into law provisions from the Setting Every Community Up for Retirement Enhancement (SECURE) Act. This landmark legislation provides the most significant changes to the retirement industry in more than a decade and makes investing for retirement more accessible to millions of Americans.

How does this impact long-term care planning?

First, the legislation eliminates the concept of "stretch IRAs," which extended the tax-deferred status of an inherited IRA when it passed to a non-spouse beneficiary. The beneficiary could "stretch" the life—and the associated tax advantages—of an IRA over decades. Under the new law, non-spouse beneficiaries are required to take out all funds from their inherited IRA within 10 years of the death of the original account owner.

Second, due to increased life expectancies, Required Minimum Distributions (RMDs) aren't required to be taken until age 72, up from 70½.

Asset Care Qualified Money strategy

Do you have clients expecting to inherit qualified funds who are unsure of how to reposition their required RMDs? Use Asset Care Annuity Funding Whole Life to help turn an inherited, taxable part of an estate into a tax-free income stream to pay for qualified long-term care!

- Encourage a **direct rollover** of the inherited account into Asset Care Annuity Funding Whole Life.
  - A 20% income base bonus is applied, so each $1 "spends" like $1.20!
- Distributions are taxable, but **automatically spread** over the newly required 10-year period.
  - There's no 10% penalty if the inherited IRA contract owner is younger than age 59½.
- You can even **add a spouse** to the protection so both can benefit.
- Use the **Lifetime Continuation of Benefits** to reposition the inherited funds and create tax-free distributions for qualifying LTC services… for LIFE!

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Use income instead of assets

Asset Care Recurring Premium

Asset Care Recurring Premium allows your client to begin planning for LTC earlier in life. Recurring premiums spread the funding of their protection across 5 to 20 years, or even their lifetime.

Product highlights

- Guaranteed death benefit, premiums and cash value growth
- 5-pay, 10-pay, 20-pay, or pay-to-95
- Single Premium Drop-in Rider available
- Ability to add inflation protection to base and rider
- Waiver of premium automatically included on base and rider
- Tax deductibility or use of HSA dollars for Acceleration of Benefits (AOB) and Continuation of Benefits (COB)
- LTC benefits are generally tax free from day one for home health care (90 day elimination period for all other facility care)

Hypothetical example:

Robert, 53 and Helen, 51; Married couple, non-smokers, in good health

Robert and Helen own a small business and are still in high earning years. They are concerned about the cost of long-term care because Helen's aunt pays $25/hour for home health care. They chose the pay-to-95 option to reduce their overall premium. Their monthly payment of $506.49 may be paid for partially by their business as a tax deduction, or through their HSA.

Total Initial Premium $5,822

Face Amount $166,667

Total Initial LTC Benefit Balance

Face Amount Payable for LTC Balance | Continuation of Benefits* .... Unlimited

Initial LTC Benefit Limit, Per Individual
$5,000 monthly / $60,000 annually

Initial LTC Benefit Limit, For One or Both Individuals
$10,000 monthly ($5,000 per person)
$120,000 annually ($60,000 per person)

**Continuation of Benefits begins once the policy Face Amount is exhausted **If both insured receive long-term care benefits at the same time, the LTC benefit will last for a shorter period of time than if only one insured receives long-term care benefits. Any individuals used in scenarios are fictitious and all numeric examples are hypothetical and were used for explanatory purposes only.*

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Qualified Funds for LTC

Asset Care Annuity Funding Whole Life

You probably know some clients who have IRAs, 401(k)s or 403(b) accounts.

Qualified dollars have their issues

- You can't avoid eventually paying taxes on pre-tax money that grows tax-deferred.
- Required Minimum Distributions (RMDs): Money needs to be taken out beginning at 72, whether your client wants it or not.
- When qualified money passes to heirs at death, it is taxed at the heir's current tax rate.

Our solution

- Reposition qualified money into Asset Care Annuity Funding Whole Life via direct transfer or rollover.
- The income base is credited with up to a 20% bonus.
- Annual distributions fund a 10-pay whole life policy that can be used for qualifying long-term care.
- LTC benefits can be payable for the lifetime of both insureds.
- The death benefit passes to heirs at death generally tax-free.

Even better

- Qualified money is reserved for LTC expenses — no need for your clients to deplete their portfolios at an inopportune time.
- Cover both spouses using one qualified account with no ownership issues.
- Annual distributions over 10 years count toward satisfying RMDs.
- Death benefit can help offset taxes owned on other legacy funds left to heirs.

Contact the OneAmerica sales desk or your back office to learn more about using qualified funds to help your clients pay for long-term care.

Note: If you were age of 70 ½ before or on December 31, 2019 you must begin or continue withdrawing the required minimum distribution annually If you turn 70 ½ on or after January 1, 2020 the age at which you must begin withdrawing required minimum distributions has been increased to age 72.

As of 2019

Over 100 million	$7.5 trillion.[1]
Number of Americans that participate in defined-contribution plans	Total assets in defined-contribution plans

1. *How America Saves 2019, Vanguard, https://institutional.vanguard.com/iam/pdf/HAS2019.pdf*

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Annuity Care

New Life for Old Assets!

There is a total of $2.8 trillion[1] currently in annuities.

- 79% of annuity owners see it as a financial resource to avoid being a financial burden on children.[2]
- 73% see it as an emergency fund in case of catastrophic illness or nursing home care.[2]

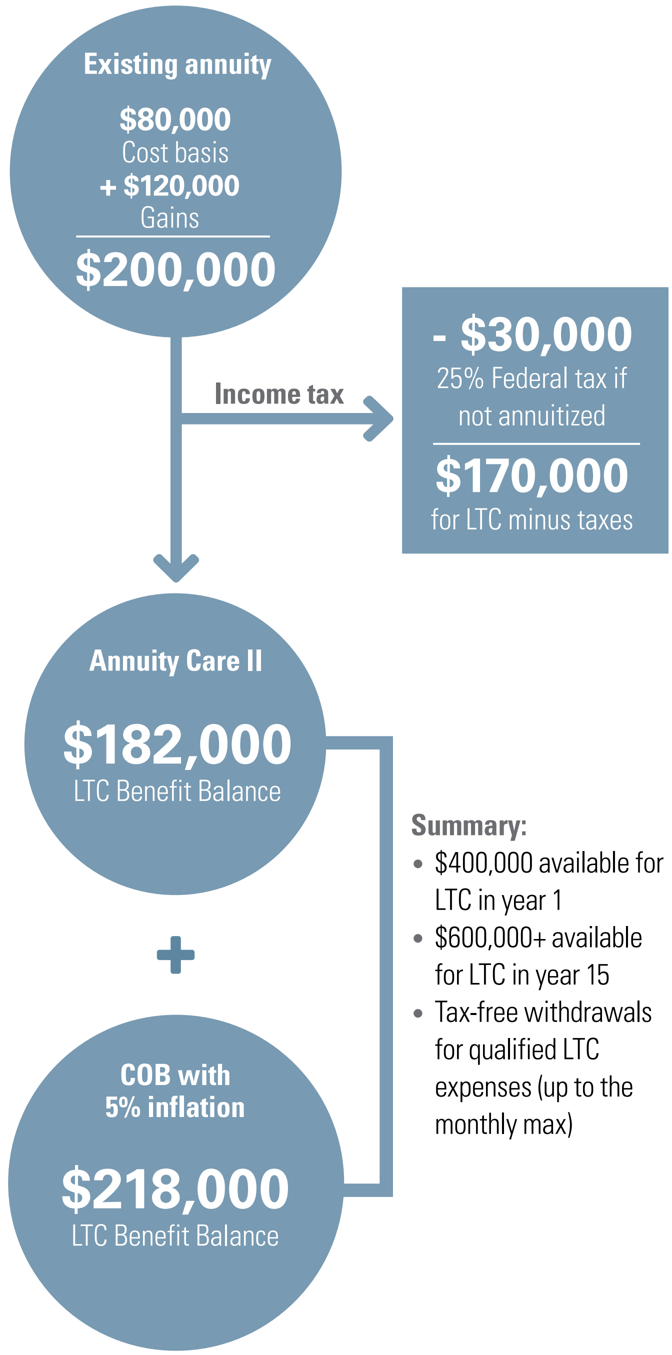
Many of these annuity assets are just sitting, waiting to be used. If they're never used, any gains are taxable to heirs at death.

Help give new life to these stagnant annuities with annuity-based solutions from OneAmerica®:

- All options are PPA-eligible, making gains tax-free if used for qualifying LTC expenses
- All premiums are fully guaranteed
- Joint coverage can protect 2 lives under one policy
- The Eligible Person provision can add a spouse to an individually owned annuity upon conversion

All of our annuity-based solutions qualify for expedited underwriting: only a few health questions and a telephone interview!

Annuity Care II can be written up to age 80; Annuity Care and Indexed Annuity Care up to age 85.



1. *Table 25, Year-End Deferred Annuity Assets by Market Type, U.S. Individual Annuity Yearbook — 2016, LIMRA Secure Retirement Institute, 2017.*
2. *2013 Survey of Owners of Non-Qualified Annuity Contracts, conducted by The Gallup Organization and Mathew Greenwald & Associates for The Committee of Annuity Insurers, 2013.*

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Use IRA Dollars to Fund Asset Care

20 percent income base bonus

Asset Care Annuity Funding Whole Life is a deferred fixed-interest annuity with an income rider. The income rider allows the annuity to fund the underlying whole life policy over 10 years.

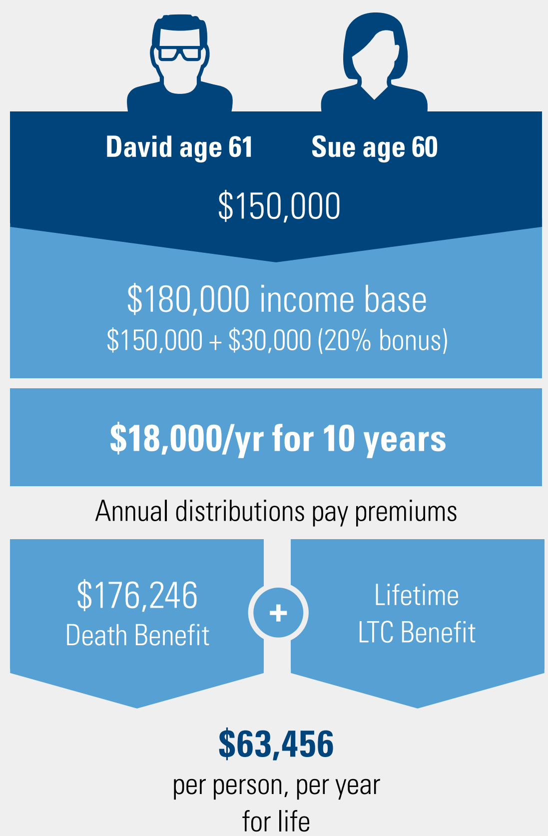
Did you know that when you transfer a portion of your clients qualified money into this funding option, they receive a bonus applied to their income base of up to 20 percent? This bonus provides extra value for your clients, and you can help make sure their protection lasts as long as they need it with the Lifetime Continuation of Benefits option.

Consider this hypothetical example:

David, 61 and Sue, 60; Married couple, non-smokers in good health

David and Sue can reposition $150,000 of their qualified funds into the Asset Care Annuity Funding Whole Life option. Their 20% income base bonus results in $180,000 to purchase a whole life face amount of $176,246. Then, using the income rider, the annuity disburses $18,000 per year for 10 years.

That $150,000 qualified annuity generates a guaranteed annual income of $63,456 per person to help pay for qualifying LTC expenses... **FOR LIFE!**



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Advanced Strategies

Asset-based long term-care benefits — Tax guide for individuals and businesses

Asset-based long term-care (LTC) protection links LTC benefits with either life insurance or a deferred annuity. When LTC expenses are incurred, LTC benefits are paid tax-free. If LTC is not needed, assets are transferred to heirs at the insured's death. This is unlike health-based LTC coverage which has no cash value and, if the insured never requires LTC, no LTC benefits are paid and there is no benefit for the insured's heirs.

The favorable treatment of asset-based LTC products remains unknown to many Americans. Help your clients understand the taxation and tax benefits of asset-based LTC products in both individual and business settings.

Tax Guide for Asset-based Long Term Care Benefits

The development of asset-based long-term care

In 1996, with the Health Insurance Portability and Accountability Act (HIPAA), the federal government set forth the requirements for tax-qualified long-term care (LTC) policies. These provisions are codified in Internal Revenue Code (IRC) section 7702B. HIPAA also provided for life insurance/LTC combination contracts or what are known as hybrid or asset-based LTC policies.

HIPAA stated that life insurance and LTC benefits could be combined in one policy. If the provisions for payment of LTC benefits complies with the law, those benefits will be received income tax free. Additionally, if the policy pays no LTC benefits and the policy pays its life insurance death benefit on the insured's death, then that benefit will also be received free from income tax under IRC section 101(a). The typical configuration of a life insurance asset-based contract involves what is basically a prepayment of a permanent life insurance policy's death benefit for qualified LTC claims.

For example, a policy may provide that the maximum monthly LTC benefit is 2% of the policy's death benefit. Hence, if the policy had a $250,000 death benefit, the maximum monthly LTC benefit would be $5,000 per month for 50 months. Each payment of LTC benefits would correspondingly reduce the policy death benefit. If the full payment of $5,000 were to be paid for 50 months, the policy death benefit would likewise be exhausted.

An additional consideration in the analysis of asset-based LTC contracts is the ability to purchase Continuation of Benefit (COB) coverage with these policies. COB coverage takes effect after the LTC benefit balance on the base policy has been exhausted through qualifying LTC benefit payments. COB coverage will continue benefits for a predetermined period of time, and lifetime coverage is also available. There is additional premium for this extended coverage and it is medically underwritten. Premiums are generally non-cancelable and may be paid on a single premium, a 10-pay or an annual basis. COB coverage can provide the purchaser with the peace-of-mind that they will not outlive the coverage.

From the above example in which a life insurance LTC policy was prepaying 2% of the death benefit each month over a period of 50 months: this insured may have concerns that coverage will be exhausted if he or she lives longer than four years and two months while on LTC claim. COB coverage will begin in month 51 when the base coverage runs out.

The tax deduction for individually purchased policies

HIPAA amended IRC section 213(d), which provides for the allowance of a deduction for medical care expenses, to include LTC premiums in the definition of "medical care". Note that, where asset-based LTC products are concerned, the medical expense deduction would apply to premium charges for Acceleration of Benefit (AOB) payments for LTC claims on the base life insurance policy, and to premium charges for COB coverage. The premium on the base life insurance policy is not deductible because life insurance premiums are not deductions on a personal income tax return.

The first hurdle to claiming any level of deduction is that medical care is an "itemized" deduction and is not available to individual taxpayers who claim the standard deduction. A second limitation is that the deduction for medical care is limited by a 7.5% (2021) Adjusted Gross Income (AGI) floor. A third limitation is that the LTC premium deduction is limited to an age-related table that sets a cap on the deduction. The table limits are adjusted annually for inflation, and the following table sets forth the deduction limits for 2021:

Caps on itemized deduction

Age of Insured	Annual Premium Deduction Limit
Under 41	$450
41–50	$850
51–60	$1,690
61–70	$4,520
Over 71	$5,640

Consider a single taxpayer, age 60, with an AGI of $60,000 and without any medical expenses other than LTC and health insurance premiums. If the taxpayer purchases LTC insurance the maximum deduction is $1,690. If this individual pays $1,242 for health insurance coverage as his or her contribution for employer provided health insurance, the calculation for determining the amount of itemized deduction would be as follows:

Calculations for itemized deduction

LTC insurance premium	$1,690 (limit)
Health insurance premium	$1,242[1]
Total medical expenses	$2,932
7.5% of AGI	$4,500

1. *2019 Average annual worker premium, all plans Kaiser Foundation, 2019 Employer Health Benefits Survey.*

What this demonstrates is that the taxpayer would have to incur out-of-pocket medical expenses (in addition to LTC premium) of at least $1,568 before any of the medical expenses would be deductible. Note also that, if an employee's health insurance contribution is paid via an employer's cafeteria plan on a pre-tax basis, then the employee's contribution may not be an itemized deduction on the employee's personal tax return. Even if this taxpayer were self-employed and purchased an "Obamacare" plan under the Patient Protection and Affordable Care Act, paid entirely by the taxpayer without subsidy, the example would look as follows:

Medical expenses deduction

LTC insurance premium	$1,690 (limit)
Obamacare premium	$11,304[2]
Total medical expenses	$12,994
7.5% of AGI	$4,500
Potential deduction	$8,494

2. *Healthcare.gov/see plans/, 2020 cost estimate for Caresource standard silver plan for male, age 60, in Indiana.*

In a 22% tax bracket this taxpayer's after-tax benefit would be $1,868. Hence, even for those who are paying increasing amounts for health coverage due to Obamacare, the value of the deduction may be minimal.

Note also that with the standard deduction for a single taxpayer in 2021 being $12,550 this individual would need an additional $4,056 of other itemized deductions to make itemization beneficial.

The tax treatment of policies purchased in the employment setting

Although a tax benefit based on premium in the individual purchase setting may be illusory or paltry, the same cannot universally be said for the purchase of LTC protection in the employment setting. Depending on the type of employer and the nature of the relationship between the employer and employee, there may be substantial tax benefit through the provision of LTC protection as an employment benefit. The following discussion assumes that benefits paid from LTC protection in all cases are “qualified” under IRC section 7702B, i.e., that reimbursement payments and per diem payments up to the daily limit are not reportable in income. Once again, this covers only AOB or COB or separate rider charges for LTC protection. The tax treatment of the base life insurance policy is different.

Sole proprietors

A sole proprietor can deduct his or her long-term care insurance (LTCI) premiums up to the age-related cap mentioned above. This is done as an adjustment to gross income on the individual’s tax return (Self-employed health insurance deduction). The portion of the premium in excess of the cap is not deductible as a medical expense. The percentage of AGI threshold for deductibility on an itemized individual return does not apply because the self-employed health insurance deduction is above-the-line.

Employees (including spouses) of sole proprietors

LTCI premiums paid by the employer are deductible by the employer, and the deduction is not limited by the age-related cap. In other words, the LTCI premium may be treated as a business expense for medical insurance premiums. Employees are not taxed on premiums paid by their employer for LTCI on the employee, the employee’s spouse, and the employee’s eligible dependents.

Base life insurance policy premiums

The base premiums for policies insuring the sole proprietor are not deductible by the sole proprietor. The base policy premiums on policies insuring employees, if the employee owns the policy, are deductible by the sole proprietor as compensation paid to the employee. The base policy premiums are reportable in income by the employee as compensation received. Per IRC section 264(a)(1), the sole proprietor may not have any interest in the policy in order to claim the deduction.

Partnerships, limited liability companies (LLCs) taxed as partnerships and S corporations

LTCI premiums paid by the employer for non-owning employees are deductible by the employer, and the deduction is not limited by the age-related cap. In other words, the LTCI premium may be treated as a business expense for medical insurance premiums. Premiums for the "self-employed" are limited by the age-related cap.

If premium is for LTCI on a partner, this assumes the premiums are “guaranteed” payments under IRC section 707(c) where the LTCI premium payment is not deducted from the partner’s draw from partnership profits. If the draw is reduced (a reduction in distributions to that partner), or the payment of LTCI premium is dependent on partnership profit, then the LTCI premium is not deductible.

For an S corporation to claim a deduction for LTCI coverage the premiums must be paid under a plan established by the S corporation. A plan is considered “established” if the premiums are either directly paid by the S corporation or paid by the owner and reimbursed by the S corporation (IRS Notice 2008-1).

Partners, LLC members and S corporation greater than 2% shareholder employees

The LTCI premium payment is treated as income from self-employment reported on Schedule K-1 for partners and LLC members, and on Form W-2 for greater than 2% shareholder employees. The owner employee can deduct his or her LTCI premiums up to the age-related cap. This is done as an adjustment to gross income on the individual's tax return (Self-employed health insurance deduction). The portion of the premium in excess of the cap is not deductible as a medical expense. The percentage of AGI threshold for deductibility on an itemized individual return does not apply because the self-employed health insurance deduction is above-the-line.

Non-owning employees

One strategy that self-employed persons use to deduct premiums paid for LTCI on a spouse is to employ the spouse in the business. This does not work in an S corporation because the family attribution rules under IRC section 318 cause ownership of an individual's S corporation stock to be attributed to his or her spouse, children, grandchildren, and parents. As a result, those affected by the family attribution rules are treated like the greater than 2% shareholder employee regarding tax treatment of LTCI premiums.

Employees (not subject to family attribution) are not taxed on premiums paid by their employer for LTCI on the employee, the employee's spouse, and the employee's eligible dependents.

Base life insurance policy premiums

The base policy premiums on policies insuring employees, if the employee owns the policy, are deductible by the business as compensation paid to the employee. This is Schedule K-1 self-employment income for partners and LLC members, and is Form W-2 income for S corporation shareholder employees. In other words, the base policy premiums are reportable in income by the employee as compensation received. Per IRC section 264(a)(1), the business enterprise may not have any interest in the policy in order to claim the deduction.

C Corporations

LTCI premiums paid by the employer are deductible by the employer, and the deduction is not limited by the age-related cap. In other words, the LTCI premium may be treated as a business expense for medical insurance premiums.

A corporation may establish a plan under IRC section 105 to provide LTCI benefits only to a select group of employees. The plan should be in writing and approved by the corporation's legal counsel. It should define which employees are eligible using reasonable classifications related to employment status such as compensation, job title or years of service.

C Corporation employees (owners and non-owners)

The entire LTCI premium paid by the business is excluded from the employee's income. This exclusion applies to shareholder employees in C corporations and to shareholder employees who own 2% or less of an S Corporation.

Thus, to review: C corporations which pay LTCI premiums through a valid IRC section 105 plan for employee coverage may deduct the premiums and are not limited by the age-related cap. Nor are C corporations limited by the 7.5% AGI floor. Such coverage is also not taxable to the employees. Hence, C corporation shareholder employees, where the corporation has retained earnings, may find asset-based LTCI policies with AOB and comprehensive COB coverage attractive. The AOB and COB premiums are deductible to the corporation without limit, the AOB and COB premiums are not taxable to the shareholder employee, and LTC benefit payments are tax free under IRC section 7702B.

Base life insurance policy premiums

The base policy premiums on policies insuring employees, if the employee owns the policy, are deductible by the business as compensation paid to the employee. The base policy premiums are reportable in income by the employee as compensation received. Per IRC section 264(a)(1), the business enterprise may not have any interest in the policy in order to claim the deduction.

Other considerations

PPACA and LTCI plans

The Patient Protection and Affordable Care Act (PPACA—a.k.a. Obamacare) affected an employer's ability to provide medical reimbursement under IRC section 105 as such a plan may not meet the approved PPACA requirements. However, there is an exception from PPACA for dental, vision and LTCI plans (42 USC Section 300gg-91(c)(2)).

Contributory arrangements

If an employer only pays a portion of the LTCI premium, the employee is able to treat the balance that the employee pays as a deductible medical expense. The employee must itemize, and the deduction is limited by the age-related cap. Also, the employee is entitled to the deduction only to the extent that total medical expenses exceed 7.5% of AGI. The employer may deduct the full amount the employer pays as an employer provided medical expense.

It is important to note that LTCI premiums an employer pays must be considered additional compensation for services provided by the employee. To the extent that an employee's salary or bonus is reduced to pay LTCI premium, that reduced amount is considered paid by the employee and would be taxable to the employee.

Health Savings Account (HSA)

Tax-qualified LTCI premiums can be reimbursed through an HSA, tax-free, up to the age-related cap. Tax-qualified LTCI premiums cannot be paid with pre-tax dollars under an employer provided cafeteria plan. However, LTCI premiums may be reimbursed through an HSA that is offered under an employer provided cafeteria plan. Tax-qualified LTCI premiums cannot be reimbursed through a Flexible Spending Account (FSA). Health Reimbursement Arrangements (HRAs) funded with employer money only may pay tax-qualified LTCI premiums, provided unused funds are forfeited or carried forward to the following year.

Return of premiums

Upon surrender or cancellation of an LTCI policy during the insured's lifetime, any refund shall be included in gross income to the extent that any deduction or exclusion was allowable with respect to the premium. The tax code and regulations are silent as to whether premium refunds paid on the insured's death are taxable income.

With asset-based life insurance/LTC products, the payment of the life insurance policy death benefit on the death of the insured is received income tax free by the policy beneficiary.

Jointly owned LTCI

A couple may purchase LTCI which insures their joint lives. Some policies are considered to be policies with joint insureds, and with other policies the second insured is covered via a policy rider. Any deduction available to the owner/insureds will be for each insured and will be based on that insured's age for purposes of the age-related cap.

Eligible retired public safety officers

Under the Pension Protection Act of 2006 (PPA), an eligible retired public safety officer may request a total of up to $3,000 per year paid from his or her eligible retirement plan for taxqualified LTCI premiums for themselves, their spouse or eligible dependents. The payment must be made directly from the plan to the insurer issuing the LTCI. It cannot be made to the individual. This feature is available only in plans that specifically offer this option.

1035 exchanges to LTCI

Many couples at or nearing retirement age have deferred annuities and permanent life insurance. Often such couples consider repositioning these investments without understanding the benefits of exchanging such policies for asset-based LTC policies. A benefit with life insurance and annuity policies is that IRC section 1035 permits exchanges from one policy to another policy better suited to meet the needs of the insured. Regulations also permit partial exchanges of deferred annuity policies with basis being allocated pro-rata between policies. The chart that follows shows what types of contracts can be exchanged under section 1035.

Type of policy exchange options

	Transfer to:			
	Life insurance	Endowment	Annuity	Long-term care[3]
Life insurance	Yes	Yes	Yes	Yes
Endowment	No	Yes[4]	Yes	Yes
Annuity	No	No	Yes	Yes
Long-term care[3]	No	No	No	Yes

3. *Contract must be a "qualified" long term care contract under IRC section 7702B.*
4. *Provided payments begin no later than under the old contract.*

In a gain situation, a proper IRC section 1035 exchange enables the policyholder to postpone the recognition of that gain. The policyholder's cost basis in the new policy becomes the transferred basis plus any future premiums paid.

In 2006, the PPA provided for annuity/LTC combination contracts in a manner similar to life insurance/LTC combination contracts under HIPPA.

Consider an individual age 70 who holds a traditional deferred annuity with a current account value of $400,000 and a basis of $200,000. If withdrawals are made from this annuity for expenses, LTC expenses included, the $200,000 gain in the annuity will be taxed first at ordinary income rates. If the annuity is exchanged under IRC section 1035 for an annuity LTC policy, taxation of the gain will be deferred, and if withdrawals are made for LTC expenses the distributions will be income tax free.

If this individual wished to allocate half of the $400,000 account value to LTC coverage, he or she could partially exchange half of the contract for an annuity LTC policy. The result after the partial exchange would be two policies. One traditional policy with an account value of $200,000 and a basis of $100,000; and one annuity LTC policy with an account value of $200,000 and a basis of $100,000.

Now consider an individual age 70 who holds a permanent life insurance policy with a death benefit of 250,000, cash surrender value of $150,000 and a basis of $100,000. If this individual surrendered the policy he or she would have $50,000 of reportable gain as ordinary income. The individual could take basis-reducing non-taxable withdrawals from the policy or loans, but if the policy later lapses or is surrendered, the policy gain will be reportable at that time. If this policy is exchanged under IRC section 1035 for an asset-based life insurance/LTC policy, the risk of taxation on lapse due to withdrawals for LTC expenses disappears. If this individual can no longer pass medical underwriting, the existing life insurance policy could be exchanged under IRC section 1035 to an annuity LTC policy, and distributions would then enjoy the tax favorable treatment that product enjoys for payment of LTC expenses.

LTCI versus Chronic Illness Riders

In addition to providing for asset-based LTC products in IRC section 7702B, HIPAA also added section 101(g) to the IRC. This section provides for terminal illness and chronic care riders on life insurance policies. A "terminally ill individual" is a person who has been certified by a physician as having an illness or physical condition which can reasonably be expected to result in death within 24 months after the date of certification. A "chronically ill individual" is defined as any person (1) unable to perform, without substantial assistance, at least two activities of daily living for at least 90 days, (2) having a similar level of disability, as designated by regulations, or (3) requiring substantial supervision to protect the person from threats to health and safety because of severe cognitive impairment. Policy payments made for terminal illness or for chronic illness are treated as an acceleration of the policy death benefit and are received income tax free.

Hence, it may seem such riders provide the same protection as asset-based life insurance LTC policies because a policy death benefit may be accelerated income tax free for qualifying expenses. However, that is where the similarities end. The agent selling life insurance with section 101(g) riders only needs a license to sell life insurance. The selling of asset-based LTC policies requires the agent to also meet the state's licensing requirements for LTC insurance. In addition, most states have LTC training and continuing education requirements. Furthermore, consumers purchasing asset-based products are afforded the protections outlined within section 7702B, including limits on post-claim underwriting, suitability standards, and education (e.g. the provision of the Buyer's Guide to Long Term Care Insurance).

In fact, the term "long-term care" may not be used in marketing 101(g) policies. With some 101(g) riders, the physician must certify that the chronic illness is likely to last the rest of the insured's life — in other words, the condition must be non-recoverable. Whereas, 7702B policies provide benefits for both temporary and permanent claims. Also, some life insurance carriers place a cap on the percentage of the death benefit available for acceleration depending on the age and status of the insured at the time of the claim. A recent commentary described this dilemma as follows:

> *"Some companies "include" a chronic illness rider feature as part of the policy, with no underwriting and at no additional charge. But keep in mind, no charge does not equate to free. Instead of charging for the rider, the death benefit is discounted when the rider benefits are actually needed. Because of this, benefits cannot be determined until a claim is filed. The discounting of benefits is based on several variables, including age, sex of the insured, premium class as well as current interest rates and policy cash value at time of claim. The younger you are when filing a claim, the more the death benefit is discounted. While some may argue this method spares people never needing qualifying chronic care services from paying rider charges, those needing benefits may not understand at the time of claim why the total policy benefit paid is not the amount of the policy at issue."*
>
> *Shawn Britt, All riders are not created equal, Life Health Pro, November 1, 2012.*

Thus, the insured who purchases a 101(g) policy may not know what level of benefit will be available at the time of a claim. However, 7702B policies typically pay 100% of the policy death benefit for LTC claims which means the LTC benefit is known up front at the time of policy issue.

A final difference between 101(g) policies and 7702B policies is that continuation of benefits is not possible with 101(g) coverage. The COB coverage discussed earlier is only available with 7702B policies. Hence, the guaranteed assurance of benefits for an individual's lifetime at a guaranteed premium is only available with asset-based LTC products. Chronic illness riders under 101(g) can be very helpful additions to life insurance policies, and they can provide a valuable benefit in the chronic care setting.

However, for the individual who is truly seeking to cover risk for LTC, especially if lifetime coverage is desired, an asset-based LTC policy is the most comprehensive option.

Summary of income tax deductions for tax qualified long-term care insurance (LTCI)

Type of taxpayer and their premium deductions

Individual taxpayer who does not itemize
No deduction[5]

Individual taxpayer who itemizes deductions
Treated as medical insurance premiums.[6] Limited to the lesser of the actual premium paid or the amount per person from an age-related table that caps maximum deductible premiums. Table is adjusted annually for inflation. See below:

Caps on itemized deduction

Age	2020 Max Deduction	2021 Max Deduction
Age 40 or younger	$430	$450
Age 41–50	$810	$850
Age 51–60	$1,630	$1,690
Age 61–70	$4,350	$4,520
Age 71 and older	$5,430	$5,640

Premium deduction is effective to the extent that the deductible premium above added to taxpayer paid medical premiums and deductible out-of-pocket medical expenses exceeds 7.5% of the taxpayers AGI.[7]

IRA owners
IRAs may not own LTCI, and IRA distributions may not be rolled tax-free to LTCI. Distributions, after tax, may pay LTCI premiums.

Flexible Spending Accounts (FSAs)
FSAs may not reimburse LTCI premium.[8] LTCI may not be paid through an employer provided cafeteria plan.[9]

Health Savings Accounts (HSAs)
LTCI premiums can be reimbursed through an HSA, tax-free, up to the age-related cap. HSA may be inside an employer provided cafeteria plan.[10]

Employees (non-owners)
Premiums paid by employees
- Deductible by the employee who itemizes as an individual taxpayer
- May not be paid through section 125 or 401(k) accounts[11]

Premiums paid by employer
- Deductible by employer[12]
- Not taxable to employee[13]
- Not limited to the age-related cap on deduction
- Not subject to 7.5% of AGI threshold

C Corporation owner – Employee
Treated as employee[14]

5. *IRC Sec. 63(b)* **6.** *IRC Sec. 7702B(a)(1)* **7.** *IRC Sec. 213(f)*
8. *IRC Sec. 106(c)* **9.** *IRC Sec. 125(f)(2)* **10.** *IRC Sec. 106(d)*
11. *IRC Sec. 105(b)* **12.** *IRC Sec 162(a)* **13.** *IRC Sec. 106(a)*
14. *IRC Sec. 106(a)*

Other business owners:

- Sole proprietors
- S Corp greater than 2% owners
- Partners
- LLC owners

May be treated as a business expense for medical insurance premiums.[15] Limited to the lesser of the actual premium or the amount per person from an age-related table that caps maximum deductible premiums.[16] Table is adjusted annually for inflation. See below:

Age	2020 Max Deduction	2021 Max Deduction
Age 40 or younger	$430	$450
Age 41–50	$810	$850
Age 51–60	$1,630	$1,690
Age 61–70	$4,350	$4,520
Age 71 and older	$5,430	$5,640

Taxation of benefits

Reimbursement benefits for qualified LTC services are not taxed. Per Diem or Indemnity benefits are not taxed except those benefits that exceed the greater of:[17]

- Total qualified LTC services charged, or
- $400 (2021)

Return of Premium (ROP) benefit:[18]

- Available only upon total surrender or death
- May not be borrowed or pledged
- Not taxable at death
- Taxable upon policy surrender to the extent premiums were deducted

15. *IRC Sec. 162(l)* **16.** *IRC Sec 213(d)(10)(A)* **17.** *IRC Secs. 7702B(a)(2), 7702B(d) and 104(a)(3)* **18.** *IRC Sec. 7702B(b)(2)(C)*

Notes

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