Addressing long-term care costs with a tax-qualified LTC insurance policy

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No matter how diligently you prepare, your estate plan can quickly be derailed if you or a loved one requires long-term home health care or an extended stay at a nursing home or assisted living facility.

The annual cost of long-term care ("LTC") can reach as high as six figures, and this expense isn't covered by traditional health insurance policies, Social Security or Medicare. So it's important to have a plan to finance these costs, either by setting aside some of your savings or purchasing insurance.

LTC insurance

An LTC insurance policy supplements your traditional health insurance by covering services that assist you or a loved one with one or more activities of daily living ("ADLs"). Generally, ADLs include eating, bathing and dressing.

LTC coverage is relatively expensive, but it may be possible to reduce the cost by purchasing a tax-qualified policy. Generally, benefits paid in accordance with an LTC policy are tax-free. In addition, if a policy is tax-qualified, your premiums are deductible (as medical expenses) up to a specified limit.

To qualify, a policy must:

- Be guaranteed renewable and noncancelable regardless of health;
- Not delay coverage of pre-existing conditions more than six months;
- Not condition eligibility on prior hospitalization;
- Not exclude coverage based on a diagnosis of Alzheimer's disease, dementia, or similar conditions or illnesses; and
- Require a physician's certification that you're either unable to perform at least two of six ADLs or you have a severe cognitive impairment and that this condition has lasted or is expected to last at least 90 days.

It's important to weigh the pros and cons of tax-qualified policies. The primary advantage is the premium deduction. But keep in mind that medical expenses, including LTC insurance premiums, are deductible only if you itemize and only to the extent they exceed 7.5% of your adjusted gross income ("AGI") in 2018 or 10% of AGI in future years (unless Congress extends the lower threshold). So some people may not have enough medical expenses to benefit from this advantage. It's also important to weigh any potential tax benefits against the advantages of nonqualified policies, which may have less stringent eligibility requirements.

Think long term

Given the potential magnitude of long-term care expenses, the earlier you begin planning, the better. We can help you review your options and analyze the relative benefits and risks.

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