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LTC Update

Group Long Term Care Insurance Executive Carve Outs Plans – The Latest in Benefit Packages

*By Vivian P. Gallo, CLU, CSA, AEP**

With an increasing number of baby boomers approaching retirement, the need for Americans to plan for long term care is more pressing than ever before. Fortunately, recent health care legislation has been passed, making qualified Long Term Care Insurance (LTCI) policies more tax advantageous for both employers and employees since premiums are not classified as taxable income for employees. Over the past decade, these demographic changes along with increases in longevity have resulted in a growing awareness of the financial burden long term care has placed upon individuals, families and businesses. Studies have shown that the majority of employees regard providing for long term care as the greatest threat to maintaining their standard of living in retirement.

As caregivers attempting to meet the increasing needs of their aging parents, baby boomers have become acutely aware of these problems as they juggle family and employment responsibilities. As a result, LTCI coverage has become one of the most coveted employee benefits, and employees at all levels are now looking to add it to their existing benefits packages. Once the coverage is obtained, it is portable and fully owned by the employee. Many employers are now beginning to address those needs, particularly those boomers who are owners of small businesses that have grown to represent a significant portion of their net worth.

For these owners, a long term care health problem could have a devastating impact on the equity in their business, or even the very existence of that business. A well-designed, cost effective long-term care insurance plan is therefore a wise, practical, and often necessary investment. By using a small portion of their total assets, these small business owners can protect their company and their employees from potential catastrophic losses resulting from the high costs of long term care.

Both group long-term care insurance and Executive Carve Out plans are now available to protect the value of these enterprises as boomer business owners begin to retire in large numbers.

Executive Carve Out plans are especially noteworthy since they provide valuable benefits for corporations and their employees. Tailored for owners, key employees and executives, these plans can be an effective means of attracting and retaining top-talent since they can play a significant role in retirement and estate planning. Tax qualified long term care plans, especially those offering limited pay options (e.g., 10 Pay or Paid up at 65 options), serve as major incentives, both in hiring and in retaining key executives. Other employees may also be offered LTCI coverage on a voluntary basis. Employees with medical and dental expenses exceeding 7.5 percent of adjusted gross income may also be able to deduct eligible LTC premiums they pay. Policy premiums can be paid annually or accelerated to be fully paid over a ten-year period (i.e., a 10 Pay option), thereby reducing the risk of premium increases and ensuring that benefits are received on a tax-free basis.

For C Corporations, there are added tax advantages, making them optimal candidates for Executive Carve Out benefits. Since the corporate checkbook can be used to pay long term care premiums with pre-tax dollars for a select group of executives or key employees, these plans become even more attractive.

The advantages of Executive Carve Out Plan for employers are many:

- Corporate dollars can be used to pay long term care insurance premiums for owners and/or a select group of key employees/executives.
- Premiums are 100% deductible to C-corps only (spouse and dependents) Other structures may deduct “eligible premiums.”
- C-Corps can write off the premiums as a usual business expense.

The advantages for employees, their spouses or partners include:

- Benefits received under tax-qualified plans are income tax free.
- Plans can be designed to provide lifetime protection from the devastating cost of long term care.
- Upon the insured party’s demise, premium dollars paid can be transferred to heirs on a tax-free basis, utilizing a “Full Return of Premium" benefit.
- Each Employee and spouse owns his or her individual policy.

In a world in which the average life expectancy is increasing daily, LTCI has taken on a vital new role. Once considered a health care benefits option, long term care insurance today is regarded as an increasingly essential retirement benefit, one which is designed to preserve and protect both the equity of small business owners as well as their employees’ hard earned savings and 401(k) benefits.

Vivian P. Gallo is a CLU (Chartered Life Underwriter), Certified Senior Advisor (CSA), and Accredited Estate Planner (AEP), specializing in long-term care insurance. She is not a tax consultant or attorney, however, and cannot provide tax or legal advice. Please consult your accountant, tax preparer or attorney on all tax planning and legal matters

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