

# Tax-advantaged dollars for long-term care

Key employee coverage and C corporation owner/employee

Our SecureCare product line uses a premium structure that separates out the long-term care (LTC) portion of the premium instead of treating it as a charge. We believe this allows the LTC portion of the SecureCare premium to be considered as a medical expense and thus affords a favorable tax treatment for some of your clients - especially your business-owner clients and their employees. You can help these clients implement an LTC strategy that allows them to use corporate dollars to protect personal assets on a tax-advantaged basis.

The case study below uses SecureCare III, an LTC and nonparticipating whole life insurance policy (available in all states except CA and NY). The same strategy can also be applied to SecureCare Universal Life (UL) cases (available only in CA).

## How it works<sup>1</sup>

### Company creates a valid class<sup>2</sup> of employees

XYZ Company creates a valid class of employees who will receive LTC coverage. The class includes Chetna, a senior vice president, and XYZ's other top executives. XYZ pays the SecureCare premiums, but each member of the valid class owns their individual policy.



#### Chetna, age 60

\$100,000 SecureCare III policy

\$20,000 annual premium for 5 years

- Couples discount
- 6-year benefit duration
- 5% compound inflation
- LTC Boost ROP option<sup>3</sup>
- Premium waiver

Chetna	Minimum death benefit <sup>4</sup>	Monthly LTC benefit	Total LTC benefits available
Day 1	\$68,787	\$2,866	\$233,942
Age 85	\$68,787	\$9,706	\$792,209



## Contact us today

to customize a proposal that helps address a prospect's top LTC concerns:

**1-888-900-1962**

(Independent Distribution)

**1-877-696-6654**

(Securian Financial and Broker-Dealer)

1. This is a hypothetical example for illustrative purposes only.

2. Please note: It's important to work with your client's tax and legal advisors to create a valid class of employees and a document outlining the agreement and terms of the plan providing the benefit.

3. The death proceeds, return of premium amount and long-term care benefit amount depend, in part, on the return of premium option selected on the policy application. This option cannot be changed after the policy is issued. For more information regarding return of premium options, please review the policy contract.

4. Minimum amount paid income tax free to Chetna's beneficiaries if she dies before she needs LTC. The amount paid will be reduced by any terminal illness benefit payments, premium due, partial surrenders and any indebtedness.

## Company tax implication

Each employee's SecureCare premium is fully deductible, so XYZ will receive an annual business tax deduction of \$20,000 for 5 years for Chetna's premium.

## Chetna's individual tax implication

There are two parts to a SecureCare premium: the portion that goes towards the life insurance (the face amount and premium waiver agreement, if applicable) and the portion that goes towards the three tax-qualified LTC agreements. This is true for both SecureCare III and SecureCare UL.

Annual premium	\$20,000	Tax implication
Face amount (base life insurance) + premium waiver, if applicable)	\$5,109	Included in income (life portion)
<b>Total premium combined from three LTC agreements</b>	<b>\$14,891</b>	<b>Not included in income (LTC portion)</b>

A C-corp owner/employee can exclude the total LTC portion of the premium from their income, so only the life portion of the premium would be included<sup>6</sup> in their income. The company can deduct their full premium.

Chetna can exclude the total premium combined from the three LTC agreements from her income - only the portion of the premium that goes toward her face amount and premium waiver would be included.<sup>5</sup>

## The power of cumulative exclusions



Company

SecureCare

Employee  
Owner/employee of C corporation

### XYZ: company tax implication of premiums for Chetna

Total tax deduction over 5 years	<b>\$100,000</b>
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### Chetna: individual tax implication of premiums

Total amount included in income over 5 years (life portion of premium)	<b>\$25,545</b>
Total amount excluded from income over 5 years (LTC portion of premium)	<b>\$74,455</b>

5. A participant may have taxable income if they choose to exercise the policy's return of premium option because they do not have any basis in the LTC portion of the policy.

6. If a C-corp owner/employee paid for the life portion of their premium using personal funds, they would not have to include it as income. If the company paid for the LTC portion of the premium, it could still be excluded from the owner/employee's income and deducted by the company.

Please keep in mind that the primary reason to purchase a life insurance product is the death benefit.

Life insurance products contain charges, such as Cost of Insurance Charge, Cash Extra Charge, and Additional Agreements Charge (which we refer to as mortality charges), and Premium Charge, Monthly Policy Charge, Policy Issue Charge, Transaction Charge, Index Segment Charge, and Surrender Charge (which we refer to as expense charges). These charges may increase over time, and the policies may contain restrictions, such as surrender periods.

Insurance policy guarantees are subject to the financial strength and claims-paying ability of the issuing insurance company.

SecureCare™ refers to a line of hybrid life/long-term care insurance products issued by Minnesota Life Insurance Company, including SecureCare Universal Life and SecureCare III, a non-participating whole life policy with long-term care. SecureCare (including SecureCare Universal Life and/or SecureCare III) may not be available in all states. Product features, including limitations and exclusions, may vary by state. SecureCare products contain qualified long-term care agreement(s) that cover care such as nursing care, home and community-based care, and informal care as defined in those agreements. These agreements provide for the payment of a monthly benefit for qualified long-term care services. These agreements are intended to provide federally tax qualified long-term care insurance benefits under Section 7702B of the Internal Revenue Code, as amended. However, due to uncertainty in the tax law, benefits paid under these agreements may be taxable. Additionally, SecureCare products may contain other additional agreements, which may be subject to additional costs and restrictions, and may not be available in all states or exist under a different name in various states.

The optional Long-Term Care Inflation Protection Agreement is available with 3% simple interest, 3% compound interest, 5% simple interest or 5% compound interest.

Additional agreements may be available. Agreements may be subject to additional costs and restrictions. Agreements may not be available in all states or may exist under a different name in various states and may not be available in combination with other agreements.

The death proceeds will be reduced by a long-term care or terminal illness benefit payment under this policy. Clients should consult a tax advisor regarding long-term care benefit payments, terminal illness benefit payments, or when taking a loan or withdrawal from a life insurance contract.

This information is a general discussion of the relevant federal tax laws provided to promote ideas that may benefit a taxpayer. It is not intended for, nor can it be used by, any taxpayer for the purpose of avoiding federal tax penalties. Taxpayers should seek the advice of their own advisors regarding any tax and legal issues specific to their situation.

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