Tax-advantaged dollars for long-term care

Sole proprietor, S corporation and partnership

SecureCare Universal Life's unique policy structure may create a valuable opportunity for owners/employees of pass-through entities, such as sole proprietors, S corporations and partnerships. You can help these prospects create a long-term care (LTC) strategy that allows them to provide key employees with LTC coverage and use business dollars to fund their own LTC needs in a more tax-efficient manner.

How it works[1]

Step 1: Create a valid class[2] of employees

Sam, the owner and president of an S corporation, creates a valid class of employees that will receive LTC coverage. The class consists of Sam and the company's other top executives. The company pays the SecureCare premiums, but each member of the valid class owns their individual policy.

Sam, age 55
$100,000 SecureCare policy
$10,000 annual premium for 10 years

Sam	Minimum death benefit[3]	Monthly LTC benefit	Total LTC benefits available
Day 1	$101,071	$4,211	$326,885
Age 80	$101,071	$8,818	$684,425

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 professional to create a valid class of employees and a document outlining the agreement and terms of the plan providing the benefit.
3. Minimum amount paid income tax free to Sam's beneficiaries if he dies before he needs LTC. The amount paid will be reduced by any terminal illness benefit payments, premium due, partial surrenders and any indebtedness.

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)

Step 2: Portion of premium for LTC

There are two parts to a SecureCare premium: the portion that goes towards the life insurance and the portion that goes towards the tax-qualified LTC agreements.

Annual premium	**$10,000**	**Tax implication**
Face amount (base life insurance)	$5,938	**Included in income (life portion)**
Total premium **combined from all LTC agreements**	$4,062	**Not included in income (LTC portion)**

Step 3: Age-based limitations and deduction amount

Both the life and the LTC portions of the premium would be included in Sam's income,[4] but as an owner and current employee of his S corporation, Sam can deduct a portion of his LTC premium. Sam's deduction amount is determined by his age-based limitation.

This is an above-the-line deduction, which means Sam does NOT need to itemize his taxes to take the deduction.

Attained age before the close of the taxable year	**2021 limit**	**2022 limit**
40 or less	$450	$450
41-50	$850	$850
51-60	$1,690	$1,690
61-70	$4,520	$4,510
71+	$5,640	$5,640

Source: IRC Section 213(d)(1)(D)

Sam may deduct whichever is less: the total premium combined from all LTC agreements or his age-based limitation. So the first year Sam has his policy, he can deduct $1,690 by including it as a self-employed health insurance deduction on line 29 of the IRS Form 1040. The life portion of the premium is not deductible.

S corp owners who are not currently employed by their company do not qualify for this deduction, which means if Sam was not an employee of his company, he would not be able to deduct any portion of his premium.

Sam's age	**Deduction amount**	**Number of years**	**Total deductible amount**
55-60 years old	$1,690[5]	6	$10,140
61-64 years old	$4,062	4	$16,248

4. If Sam paid for the life portion of his premium himself, he would not have to include it in his income. The LTC portion would still be deductible. Using personal funds to pay for the life portion of the premium may be a good strategy for an owner/employee who is especially concerned about incurring any additional tax.

5. In reality, an insured's deduction amount will increase slightly each year they are in a particular age bracket as age-based limitations increase on an annual basis. However, the insured's deduction amount must always be whichever is less: the age-based limit or the LTC portion of their policy.

The power of cumulative deductions

Total premium over 10 years	Total premium included in Sam's income	Total premium deducted from Sam's income
$100,000	$73,612	$26,388

Sam would be able to deduct roughly 26 percent of the premium paid on his behalf from his income.

Key employee coverage

Employees who are not owners are not subject to age-based limitations. They can exclude the total LTC portion of the premium from their income (so only the life portion of the premium would need to be included[6]). The company can deduct the employee's full premium.

6. An employee 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.

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

Life insurance products contain fees, such as mortality and expense charges, and 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.

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.

SecureCare may not be available in all states. Product features, including limitations and exclusions, may vary by state.

SecureCare Universal Life Insurance includes the Acceleration for Long-Term Care Agreement. The Acceleration for Long-Term Care Agreement and Extension of Long-Term Care Benefits Agreement are tax-qualified long-term care agreements that cover care such as nursing care, home and community based care, and informal care as defined in these 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.

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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400 Robert Street North, St. Paul, MN 55101-2098

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