



LTC News

Underwriting Corner: Face to Face Assessments

By Debbie Kocsis

“Once a Face to Face has been failed (for whatever reason), it cannot be retaken.”

When an insurance company underwrites an individual over the age of 70, there is a very strong possibility that that individual will have to undergo a Face to Face Assessment. A Face to Face Assessment is a test that is administered in an applicant's home by an insurance company to primarily test an individual for their cognitive awareness. There are other conditions that are also taken into account that will have an effect on the outcome of the assessment. We will address those concerns in this edition of the Underwriting Corner.

Insurance companies hire a third party agency that will administer a face to face assessment. The test is usually administered by a retired nurse or health care professional. Among the different segments of the assessment, the most important one is the cognitive screening test. This portion of the assessment will test a person's ability to remember words and events. No one else may be present to help the applicant with the assessment. If there is a family member or friend present, that person will

be asked to leave the room. The applicant will be asked a series of questions such as who the current president is, what calendar year it is, etc. There will also be a delayed word recall test. The nurse will give the applicant a list of 10 words and then ask the applicant to use each word in a sentence. After about 10 or 15 minutes, the assessor will ask the applicant to recall as many of those words that he can. The passing score for this test differs with each company, but the number of correct usually needs to be five or more. If the applicant does not pass the delayed word recall portion of the assessment, an insurance company will not offer coverage.

In addition to the delayed word recall test, the assessor will review the medical history of the applicant and will be looking for any sort of assistive devices that the applicant may be using such as a cane, walker, or even a wheelchair. The assessor will also take into account how well the applicant gets around on his own. The assessor is also making note of the appearance of the applicant, are they well kept

and clean, or are the disheveled. Most importantly, in addition to the above, an assessor observes at how well the applicant can take care of themselves and their home.

I cannot stress the importance of this assessment and the need to relay this information to all applicant's of long term care insurance. This test is to be taken very seriously, in all aspects of the exam. Our agency had an applicant declined for long term care coverage due to the fact that the condition of the applicant's home was so deplorable that the assessor was not able to even complete the assessment. Once a Face to Face has been failed (for whatever reason), it cannot be retaken.

By making your clients aware of the assessment and all the aspects of it, may help them in being better prepared for the assessment and therefore produce a favorable result. In the long run, it could mean the difference between an approval or decline.

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The Dramatic Evolution of Long-Term Care Part 4

by George Sherman

Every aspect of LTC has changed over the last ten years. In the last issue we looked at the evolution of public awareness.

LTC today is not what it was ten years ago

A decade ago the nursing home was the accepted locus for LTC. Most policies paid only for custodial care in licensed facilities.

This is no longer the case. Home care is more accessible, allowing more frail elderly to remain at home. The assisted living industry has matured beyond being a curiosity, and continues to attract billions in new investment capital. ALFs have seized on the market for Alzheimer's care, and proportionately have a significantly larger number of units dedicated to it. Meanwhile, 20%

of the nation's nursing homes participating in Medicare are in bankruptcy, occupancy rates and bed days continue to decline, and the facilities are subjected to frequent indictments of poor quality and inadequate staffing ratios.

Look for Part 5 in the next issue of LTC News.

Source: www.mrltc.com

“...20% of the nation's nursing homes participating in Medicare are in bankruptcy...”

Everything You Wanted to Know About the LTC Tax Status of "C" and "S" Corps

By Roger Binyon, JD, Scottsdale, AZ, and Stan Dabrowski, CLU, Overland Park, KS

A growing number of business owners are taking advantage of a relatively new permanent perk: the company-paid qualified LTC insurance plan. In increasing numbers, executives in their 40s and 50s are recognizing the important role comprehensive LTC planning plays in asset preservation and wealth transfer.

Effective January 1, 1997, the Health Insurance Portability and Accountability Act (HIPAA), codified as IRC Section 7702B, created Qualified LTC Insurance (QLTCI) contracts. The following information focuses on the federal income tax treatment of QLTCI contracts with respect to "C" corporation employer-sponsored QLTCI and "self-employed" individuals (sole proprietorships, partnerships, and limited liability companies) who may deduct the cost of QLTCI from employee-spouses.

QLTCI treated as accident and health insurance

IRC Sections 7702B(a)(1) and (a)(3) provide that QLTCI plans shall be treated as an accident and health insurance contract. This is extremely favorable treatment for both the employer and employees as it affects IRC Sections 162, 106, 105, 213 and 7702B(a)(2)... all of which are considered in this article.

QLTCI and non-discrimination coverage requirements

The IRC imposes no non-discrimination coverage requirements on employer-sponsored QLTCI plans. Employers may be selective in choosing the employees for whom they wish to purchase a QLTCI plan. The IRC does, however, impose non-discrimination coverage requirements on employers who adopt Self-Insured Medical Reimbursement Plans under IRC Section 105.

Deductibility of QLTCI premiums

A "C" corporation employer may deduct 100% of the cost of a

QLTCI plan for the employee and dependent (spouse) as an "ordinary and necessary" business expense under IRC Section 162(a).

Owner-employees of sole proprietorships, partnerships, limited liability companies and "S" corporations do not receive favorable federal income tax treatment for deductibility of QLTCI premium payments. They are treated as "self-employed" individuals and may only deduct a percentage of amounts paid for accident and health insurance under IRC section 162(L). The applicable percentages are 60% for 1999 through 2001, 70% for 2002 and 100% for 2003. Furthermore, "self-employed" individuals are subject to age-based QLTCI deduction limitations under IRC Section 213(d)(10).

Recently, the Internal Revenue Service concluded that "self-employed" individuals may deduct 100% of the cost of an A & H plan for an employee-spouse if the spouse is a "bone fide" employee. The employer-spouse may then be covered by a joint QLTCI plan as member of the employee's family. (Reference to ISP Coordinated Issue Paper, effective March 29, 1999.) The aforementioned ability to deduct 100% of the cost, however does not apply to "S" corporation because, under IRC Sections 318 and 1372, both the spouse of a more-than-two-percent shareholder and the more-than-two-percent shareholder are treated as partners in a partnership-for-benefit purposes and cannot deduct 100% of the cost of a QLTCI plan. *In summary, the 100% tax deductibility of QLTCI premiums available to "C" corporations also extends to "self-employed" individuals who legitimately employ the owner-employee's spouse.*

Income tax treatment to employees of employer-sponsored QLTCI

IRC Section 106 excludes "C" corporation employer contribu-

tions to QLTCI plans from the income of the employees who benefit from the plans. Similarly, this benefit extends to the sole proprietor, partnership or limited liability company that provides QLTCI coverage to the spouse as an employee.

Income tax treatment to employees upon receipt of QLTCI benefits

IRC Section 7702B(a)(2) provides that amounts received under a QLTCI contract shall be treated as received on account of personal injuries and sickness, and shall be treated as reimbursement for expenses actually incurred for medical care as defined in IRC section 213(d). Income-tax-free per diem indemnity payments may be made to employees, subject to limitations provided by IRC Section 7702B(d)(2). For 2001, employees may receive up to a maximum daily benefit of \$200 income-tax-free, as an indemnity for Long Term Medical Care.

Income taxation of QLTCI premium refunds

IRC Section 7702B(b)(1)(E) states the general rule that all QLTCI premium refunds are to be applied as a reduction in future premiums or to increase future benefits. The special rules under IRC Section 7702B(b)(2) specifically state that refunds only on a complete surrender or cancellation of the contract can be included in income to the extent any deduction was allowable for the QLTCI premiums. IRC Section 7702B does not state that premium refunds, which are received on the death of the insured, may be included as income. [Roger Binyon may be reached at (480) 614-8320, Stan Dabrowski at (913) 642-6300. This article is not intended to serve as legal or accounting advice; a professional should be consulted about specific laws and facts relevant to any particular situation.]

Source: LTC News & Comment

40 or less	\$230
41-50	\$430
51-60	\$860
61-70	\$2,290
71 and older	\$2,860

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"A "C" corporation employer may deduct 100% of the cost of a QLTCI plan for the employee and spouse..."