



LTC News

IRS Confirms in Writing that NTQ LTC Benefits are Taxable Income

"...clients who were previously sold NTQ policies...may now be doomed to paying tax on these benefits..."

The State of California Department of Insurance, Department of Aging, and others in California have repeatedly stated that they believed that benefits from Non-tax qualified policies written in accordance with California law weren't taxable and that Congress or the IRS would have to pass additional laws in order to clarify the taxation of these policies. An associate of Ohio Long Term Care Brokers has been troubled by these statements, both verbally and in writing, for a long time and has felt that language was already in place in the IRS code as well as in HIPAA allowing them to tax benefits from anything other than TQ policies.

medical expenses.

Our associate wrote to the IRS to see if she could get a clarification from them, not really expecting to get an answer. She advised the IRS that the State of California is advising persons that no tax has been paid on NTQ policies, but that CPAs have been advising to the contrary. She told the IRS that looking at the 1099LTC form and form 8853 it appeared that benefits on NTQ policies must be reported as taxable income. She advised the IRS about her inability to find anything on their website to the contrary. To her surprise, in a very short time, she received the following reply:

a non-qualified plan are taxable income. Your own research on the form 8853 proves that. The information from California seems to be in error, unless they are speaking of California tax issues of which we do not comment on at this web site."

As far as we know it is the first and only written evidence from the IRS that says that NTQ policy benefits are taxable - no ifs, ands or buts. One of the biggest problems now is that the clients who were previously sold NTQ policies by agents who stated that they didn't need to worry about taxation on the benefits, may now be doomed to paying tax on these benefits for the balance of their lives unless they are healthy enough to replace it with a TQ policy, or the insurer voluntarily agrees to let them switch. What began as a law to benefit California consumers (requiring that insurers offer both TQ and NTQ LTC policies) may well be one that causes them a tax burden they are ill-prepared to pay.

"We are sorry for the delay in answering your question. As you stated, "I can't find anything except the 1099LTC and form 8853 (which seems to indicate that proceeds from these policies must be reported on the 1040 form as income)." The reason you can not find anything to the contrary is because there is nothing there. Payments from

In California, Certified Public Accountants have been advising that their clients are being taxed on the benefits from NTQ policies. They also state that the clients can only deduct a small amount of offsetting charges due to rules about what "nursing services" are and are not deductible under the tax code as

INSIDE THIS ISSUE:

| | |
|--|---|
| IRS Confirms in Writing that NTQ LTC Benefits are Taxable Income | 1 |
| The Dramatic Evolution of Long Term Care Part 5 | 1 |
| Ohio Long Term Care Brokers | 2 |
| Underwriting Corner: Alcoholism | 2 |
| What the Public Wants to Know about LTC Insurance | 2 |

The Dramatic Evolution of Long-Term Care Part 5

by George Sherman

Every aspect of LTC has changed over the last ten years. In the last issue we looked at the evolution of long term care itself.

Technology is making its mark on LTC

Innovations in telehome care, assistive technology, robotics, unheard of ten years ago, have just begun to benefit the disabled elder, and hold the promise of future undefined benefits for both the LTC provider and consumer. Ten years ago the Internet was an unknown. With the speed of light the Internet

has revolutionized the generation, accession, transmission and utilization of information. When I attended meetings of the Pepper Commission, I lived seven miles from the nation's capitol. I attended innumerable hearings and meetings on The Hill and in various lobbying offices. The phone and fax were my constantly ringing lifelines. For the past three years I have lived in the Colorado Rockies near a town of 300 people. I rarely travel to meetings and conferences. The fax machine beeps infrequently, spewing out an inconsequential press re-

lease. Even the phone is not the prime tool of communications it used to be. E-mail has taken over. No telephone tag. The Internet has also made its mark in the senior marketplace. Older Americans use the Net most, after e-mail, to do research. It is logical to conclude that these older researchers, for whom LTC is a prime concern, use the Net to research LTC insurance carriers and products.

Look for Part 6 in the next issue of LTC News.
Source: www.mrltc.com

"Older Americans use the Net most, after email, to do research."

Underwriting Corner: Alcoholism

By Debbie Kocsis

Alcoholism is an illness that will affect the ability of an individual from obtaining long term care insurance. Although it is not a widely seen illness, it does exist and agents need to be aware of how to handle the situation should it arise.

Alcoholism is the abuse of alcohol which interferes with health, economic, or social functioning. There is compulsive behavior and loss of control due to the continued use of alcohol despite adverse consequences.

Potential effect from alcoholism include: dementia; heart, gastrointestinal and nervous disorders; and fractures from frequent falls.

Alcoholism is frequently associated with depression, and this combination is a poor risk. The following are questions you should ask your client should they admit they have had or are currently having a drinking problem:

- How long has there been abstinence/sobriety?
- Have there been any hospitalizations for alcohol related problems within the past 24 months?
- Are there any physical or mental abnormalities due to

alcoholism?

- Has there been any unintentional weight loss of more than 15 pounds in the past 12 months?
- Has anti-abuse treatment been initiated in the past 12 months?

The answers to the above questions will help in determining the eligibility of your client for long term care insurance. By obtaining the most information available about your client's health will aide you in getting the best coverage for your client the first time.

What the Public Wants to Know About LTC Insurance

By Marilee Driscoll

A lot of people are not buying long-term care insurance, even among those who are aware of the coverage and the need for LTC planning.

The question is, why?

Perhaps we can learn something from listening to the questions people raise about LTC insurance.

I have a collection of such questions, gleaned from speaking engagements given before thousands of people for many years. The vast majority of audiences ask the same things, time after time.

An assessment of the questions shows that the planning-oriented public is well aware of the need to buy LTC insurance. But they see themselves acting on this need eventually, not right now!

In addition, they are more afraid of making a mistake (buying the "wrong" policy) than they are of having no LTC insurance at all.

This is important information for LTC producers. Indeed, those who convince clients that purchasing LTC now is in their best interests have become highly

successful.

Put another way, the most successful agents convince prospects that waiting to buy LTC insurance could be the biggest mistake they will make—for the rest of their lives.

Often, I am asked, "What's the best age to buy LTC insurance?" This tells me the person asking the question has already decided the insurance makes sense. He or she just wants to make sure it makes sense to buy *now*, at his or her current age.

If it's been a very fun and interactive audience, I might answer "And how old did you say you were?" (That gets a laugh, and also opens the door for my real answer.)

More often, I'll answer: "That's an important question. The typical person buying an individual policy is in the mid-60s. Some people are older, and some younger. At workplaces, the average age is much younger.

"But does that mean, if you're already age 74 or even 84, that it's too late for you?"

"Not at all! If you're still healthy,

you can get this coverage. But that's the problem—by the time we're retired, many of us have health problems and can't qualify for the insurance.

"So, if you're over 65 and still healthy enough to get the insurance, that's great! Run out and get some now while you can!..."

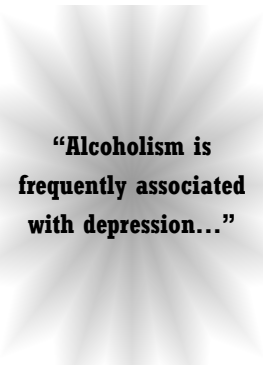
Then I consider the other question: What's the youngest age someone should get the insurance?

My answer: "Well, I think 50 is a great age. It's when most people are doing serious retirement planning. But let me tell you why I bought my policy at age 39...."

In sum, use your seminars and sales calls to educate prospects about the need to protect against LTC expenses and to motivate them to take action immediately.

Your answers to questions should give prospects both 1) the educational facts so that they feel comfortable making a decision, and 2) the motivation to have them take care of the problem *now*—and with you.

www.nationalunderwriter.com



Ohio Long Term Care Brokers

- Robert P. Dittman, CLTC
President
- Deborah D. Kocsis, CLTC
V.P. Operations
Underwriting
- Denise L. Gott, CLTC
V.P. Marketing
- Shannon Norris
New Business

701 Beta Drive Suite 34
Mayfield Village, OH
44143

Ph: 440-461-5131
Fax: 440-461-4503
Toll Free: 800-461-2051

www.ohioltcbrokers.com
Email: ohioltc@core.com

