

Long Term Care

A common concern for our estate planning clients is the cost of an assisted living facility or a nursing home for themselves or a loved one. We provide a number of services to assist in planning for these costs. A Long-Term Care (LTC) Insurance policy can be a valuable part of such a plan.

Premiums for LTC insurance policy can be significant, however the government has recently passed legislation to make those premiums more affordable. Effective January 1, 2010, an individual can exchange gain in an existing life insurance or annuity contract to pay premiums on a LTC Insurance policy, without having to pay taxes, under 26 U.S.C. s. 1035.

Previously, any time an existing life insurance or annuity contract was surrendered, the owner would have to recognize any gains on the old contract as income, and immediately pay taxes. However, with the advent of the Pension Protection Act of 2006 (this portion of which became effective January 1, 2010), the IRS no longer recognizes this as a taxable event, if the proceeds are used for LTC insurance premiums, and the transaction otherwise meets the criteria of a Section 1035 Exchange. A Section 1035 Exchange essentially permits the gains or profits held inside life insurance or an annuity (which would normally be subject to taxation as they are taken out), to be used for LTC insurance premiums tax free.


Unfortunately a Section 1035 Exchange does not permit the exchange of annuities from qualified pension plans under section 401(a), 403(a) or 403(b) or the exchange of an Individual Retirement Account for an LTC Insurance premium. Also, contracts exchanged must relate to the same insured, so one individual cannot apply his or her life insurance policy to the LTC Insurance premium of another.

If you are considering shopping for LTC insurance coverage as a part of your overall estate plan, and have built up value in a life insurance policy or an annuity, this is an excellent opportunity to leverage your premium dollars.

If you have any questions about this, or any other topic or concern, please feel free to call.

[Visit Our Website](#)

Sincerely,



Susan A. Mielnikowski
Cooley, Shrair P.C.

email: smielnikowski@cooleyshrair.com

phone: 413-735-8025

web: <http://cooleyshrair.com>