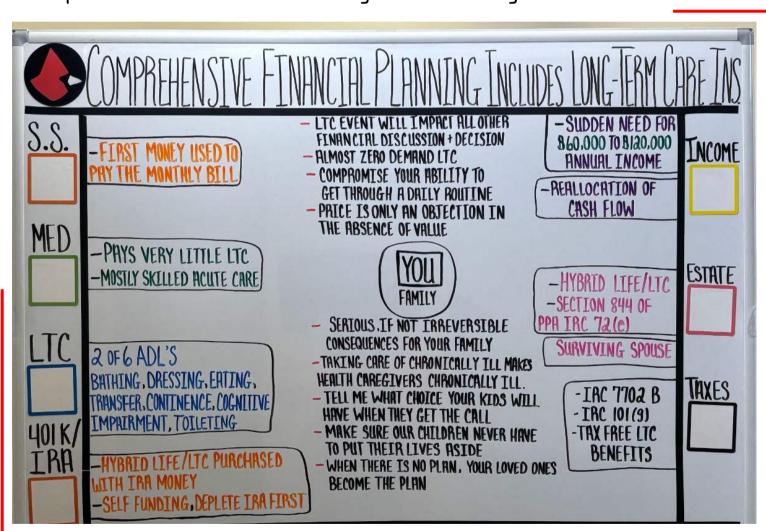


# Comprehensive Financial Planning Includes Long-Term Care Insurance

Hans and Tom use the following document in the video entitled "Comprehensive Financial Planning Includes Long-Term Care Insurance".



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**June 2025** 

The IRS code section that defines tax-qualified long-term care insurance is Internal Revenue Code (IRC) §7702B.

### Key Points from IRC §7702B:

- **Definition**: A long-term care insurance contract is considered **tax-qualified** if it meets the requirements laid out in §7702B(b).
  - Requirements include:
    - The insurance must only provide coverage for **qualified long-term care** services.
    - The insured must be **chronically ill**, certified by a licensed health care practitioner as being unable to perform at least **two out of six activities of daily living (ADLs)** or requiring substantial supervision due to **cognitive impairment**.
      - The contract must be guaranteed renewable.
    - It must **not provide for a cash surrender value** or other money that can be borrowed or paid out (other than as refunds of premiums or benefits).
    - Any refund of premiums may not be used in a way that would violate the taxqualified status.

### Tax Benefits of a Qualified Policy:

- Premiums may be tax-deductible, subject to age-based limits (IRC §213).
- Benefits received are generally tax-free as long as they don't exceed the greater of actual expenses or IRS per diem limits.

The IRS code that allows early (accelerated) payment of death benefits from a life insurance policy for individuals who are chronically ill is Internal Revenue Code (IRC) §101(g).

## Key Highlights of IRC §101(g):

- Accelerated Death Benefits: Allows a portion of the death benefit to be paid out early—while the insured is still alive—if they are:
  - Chronically ill (as defined in IRC §7702B(c)(2)), or
  - Terminally ill (generally with a life expectancy of 24 months or less).
  - For chronically ill individuals:
    - The insured must be certified by a licensed health care practitioner as being unable to perform at least two of six ADLs for at least 90 days, or requiring substantial supervision due to cognitive impairment.
    - The policy must meet the requirements similar to tax-qualified long-term care insurance under §7702B.
  - Tax Treatment:
    - Accelerated death benefits for chronic illness are **excluded from gross income** (i.e., tax-free), provided they meet certain criteria, including per diem limits and use for qualified long-term care services.

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      - The contract must be **guaranteed renewable**.
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