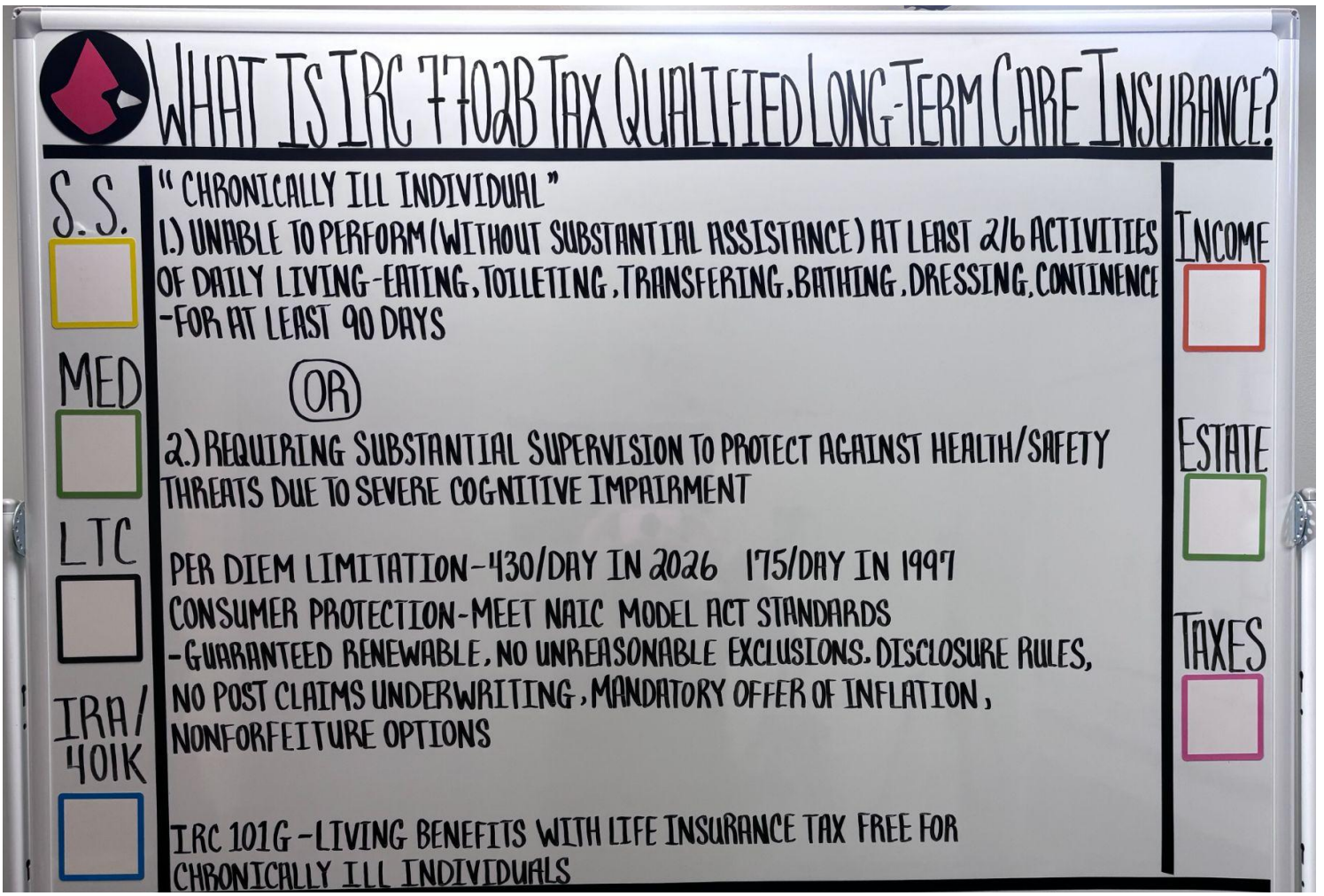
CARDINAL ADVISORS

What is IRC 7702B Tax Qualified Long-Term Care Insurance?

Learn what makes long-term care insurance IRC 7702B tax-qualified, including the "chronically ill" criteria, per diem limits, consumer protections, and tax-free benefit rules.



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§7702B. Treatment of qualified long-term care insurance

(a) In general. For purposes of this title —

1. a qualified long-term care insurance contract shall be treated as an accident and health insurance contract,

2. amounts (other than policyholder dividends or premium refunds) received under a qualified long-term care insurance contract shall be treated as amounts received for personal injuries and sickness and as reimbursement for expenses actually incurred for medical care (as defined in section 213(d)),

3. any plan of an employer providing coverage under such a contract shall be treated as an accident and health plan,

4. amounts paid for the contract shall be treated as payments for insurance under section 213(d)(1)(D), and

5. the contract shall be treated as a guaranteed renewable contract subject to section 816(e).

(b) Qualified long-term care insurance contract — (1) In general. The term means any insurance contract if —

- (A) the only insurance protection provided is coverage of qualified long-term care services,
- (B) it doesn't pay/reimburse expenses reimbursable under Medicare (Title XVIII of the Social Security Act) or that would be but for a deductible/coinsurance,
- (C) it is guaranteed renewable,
- (D) it provides no cash surrender value that can be pledged as collateral or borrowed against (with narrow exceptions),
- (E) all premium refunds and dividends must reduce future premiums or increase future benefits, and
- (F) it meets the consumer protection requirements of subsection (g).

(c) Qualified long-term care services. Necessary diagnostic, preventive, therapeutic, curing, treating, mitigating, and rehabilitative services, and maintenance or personal care services, which (A) are required by a chronically ill individual, and (B) are provided pursuant to a plan of care prescribed by a licensed health care practitioner.

A **“chronically ill individual”** is someone certified by a licensed health care practitioner as either:

- (i) unable to perform (without substantial assistance) at least 2 of 6 “activities of daily living” — eating, toileting, transferring, bathing, dressing, continence — for at least 90 days, or
- (ii) having a similarly severe disability level, or
- (iii) requiring substantial supervision to protect against health/safety threats due to severe cognitive impairment.

Recertification is required within any preceding 12-month period.

(d) Per diem limitation. Sets a base dollar cap (originally $175/day in 1997, inflation-adjusted annually — this is the figure that reached $430/day for 2026) above which excess periodic benefit payments become taxable income.

(g) Consumer protection provisions. Requires the contract to meet the NAIC’s model regulation/Act standards — guaranteed renewability, no unreasonable exclusions, disclosure rules, protection against post-claims underwriting, mandatory offer of inflation protection, and nonforfeiture benefit options.

Want me to pull the companion sections — 213(d)(10) (the premium deduction cap mechanism) or 4980C (issuer disclosure/compliance requirements)?

What it means, in practice:

- **Benefits are tax-free.** Payouts from a tax-qualified LTC policy aren’t counted as taxable income (up to certain per diem limits if the policy pays a fixed daily/monthly amount rather than reimbursing actual costs).
- **Premiums may be deductible.** If you itemize medical expenses, premiums count toward deductible medical costs, subject to age-based dollar caps set by the IRS each year (higher limits for older policyholders).
- **Self-employed people** can often deduct premiums as a business expense, subject to the same age-based caps.
- **HSA funds** can be used tax-free to pay premiums on a qualified policy (again, up to the age-based limit).

To qualify under 7702B, a policy must:

- Only pay benefits for care that's medically necessary due to a chronic illness (defined as being unable to perform 2+ "activities of daily living" — bathing, dressing, eating, etc. — or requiring supervision due to severe cognitive impairment), certified by a licensed health care practitioner.
- Not duplicate Medicare coverage.
- Be guaranteed renewable.
- Meet certain consumer protection standards (like offering inflation protection options, having a free-look period, etc.).

Most LTC policies sold today are tax-qualified, but it's worth confirming with the insurer or your policy documents, since non-qualified policies exist too and follow different tax rules (and lack the "chronic illness" trigger requirement).

Revenue Procedure 2025-32 table for 2026 eligible LTC premium limits:

Age at end of 2026	2026 Eligible Premium
40 or under	$500
41–50	$930
51–60	$1,860
61–70	$4,960
71 and older	$6,200

Also confirmed from Rev. Proc. 2025-32: the tax-free per diem limit for indemnity/cash-benefit LTC policies rises to $430/day ($13,079/month) for 2026 (up from $420/day in 2025).

IRC § 101(g) — "Treatment of Certain Accelerated Death Benefits." It works alongside §7702B, since chronically ill individuals under life insurance riders are defined using the same 7702B(c)(2) standard.

§101(g)(1) — Accelerated death benefits paid under a life insurance contract on a terminally ill individual are treated as paid by reason of death (i.e., tax-free), and the same applies to amounts received for a chronically ill individual, subject to §101(g)(3) limits.

§101(g)(2) — Defines a **"terminally ill individual"**: someone certified by a physician as having an illness or condition reasonably expected to result in death within 24 months.

§101(g)(3) — Covers the chronically ill individual case

- Payments to a chronically ill individual are excludable from income only if the insurance contract's chronic-illness provisions satisfy requirements similar to those in §7702B(b)(2) — meaning per diem payments must be treated consistently with the §7702B(d) per diem limitation (that $430/day 2026 cap we discussed), and reimbursement-type payments must actually correspond to costs incurred for long-term care.
- The individual must meet the same "chronically ill individual" definition found in §7702B(c)(2) — the 2-of-6 ADL test or the severe cognitive impairment test.
- The payer must be a qualified long-term care insurance issuer meeting §7702B(g) standards, or the accelerated benefits must be paid under the contract in a way that follows those consumer protection provisions.

§101(g)(5) — Requires that the portion of a life insurance contract providing chronic/terminal illness acceleration be treated as a separate contract from the base life insurance for tax purposes.

In plain terms: this is the tax code section that makes "living benefits" or "accelerated death benefit" riders — sometimes marketed as chronic illness riders or LTC riders on life insurance — pay out income tax-free, as long as the chronic-illness trigger and payment structure track the §7702B rules (ADL/cognitive impairment certification, per diem caps, etc.).

The NAIC Long-Term Care Insurance Model Act is a model regulation developed by the National Association of Insurance Commissioners to create consistent standards for long-term care (LTC) insurance policies sold across U.S. states. Since insurance is regulated at the state level, NAIC model acts serve as templates that individual states can adopt (in whole or in part) into their own statutes.

What it accomplished:

- Established minimum standards for long-term care insurance policies, including requirements for benefit triggers, inflation protection offers, non-forfeiture benefits, and coverage of home health and community-based care (not just nursing homes)
- Set disclosure and consumer protection requirements, such as guaranteed renewability and limits on how insurers could exclude or limit coverage

- Created rules around rate stability and premium increases to curb the industry practice of aggressive post-sale rate hikes
- Provided a companion Long-Term Care Insurance Model Regulation with more detailed implementation rules (things like outline-of-coverage requirements and replacement/suitability standards)

Year passed:

The original Model Act was adopted by the NAIC in 1987. It has been revised numerous times since then (notably in the 2000s to address rate stability issues), so “the” NAIC LTC Model Act today usually refers to this amended, current version rather than the original 1987 text.