How Paid Long Term Care Insurance Plans Can Help Small-Business Owners Attract and Retain Top Employees

LTCI as an employee benefit can help lower businesses taxes, too

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Small business owners have to be creative these days to attract and retain quality people, and thinking outside the box is a must when devising innovative benefits that would appeal to key employees — especially those in their 40s, 50s, and 60s.

Most of today's widely used employee benefits are tightly regulated, such as employer-subsidized health insurance plans or 401(k)s and other retirement programs. Deferred compensation plans generally work best for long-term employees, and today's very mobile workforce may not find such arrangements as attractive as workers once did.

So what can a small-business owner offer? Enter employer-provided, or "sponsored," long term care insurance (LTCI). For key employees ages 40 through 60, LTCI is one of the newest forms of employee benefits, and one which allows for broader discretion in how the business owner offers and subsidizes it.

LTCI is not a glamorous topic. The benefits for many workers, particularly younger employees, might not be used for 20 or more years, but many business owners might find that offering LTCI to employees can lower their taxes and provide a benefit of real value to boot.

The tax nuances vary, depending on the structure of the business, so it's important for you as an agent to have a good working knowledge of how LTCI is treated for tax purposes in the workplace. That way, even when you have limited time in which to make their case, you'll be able to provide a summary that includes accurate information about potential tax breaks and other benefits for the employer.

A business owner can offer LTCI to key executives and other employees without necessarily running afoul of ERISA and other labor laws, and paid LTCI can also be offered to highly compensated employees or to top performers.

Under the current tax law, there is much tangible tax relief from the federal government for individuals who purchase LTCI on their own. The only real help comes when LTCI premiums (up to age-based annual caps; see Table 1, below) are bundled with other medical expenses. Then, the only portion that is deductible is the amount above 7.5 percent of adjusted gross income. Benefits received under a tax-qualified LTCI policy are, however, generally tax-free.

TABLE 1
Age of Insured Before the Close of the Year 2010 & Eligible LTCI Premium Deduction

Age	Eligible LTCI Premium Deduction
40 and younger	$330
41-50	$620
51-60	$1,230
61-70	$3,290
71 and older	$4,110

But when LTCI premiums are paid by the business owner on behalf of non-shareholder employees, the business owner will receive a tax deduction for the full amount of premiums paid, without that pesky limit that otherwise applies to individuals. And the benefits are still generally tax-free.

For the self-employed consumer, S-corporation shareholder employees, partners in a partnership, and LLC members who are taxed a partnership (see Table 2 for an example, below), the available deductions again fall back to those age-based limits that apply to individuals. That still can be a significant value, depending on the age of the employee, but there is a limitation for the rare situation when a self-employed person or their spouse is also eligible for fully or partially subsidized LTCI. Be sure to consult a tax advisor for help if you have questions.

TABLE 2
Example of self-employed, S-corporation shareholders, partners, and LLC members

Basic Information

Age of self-employed individual or partner:	55
Gross income:	$60,000
Annual premium for tax-qualified LTCI policy:	$2,000

Calculating the Deduction

Eligible LTCI premium (from Table 1)	$1,190
Gross income minus deduction	$58,810 ($60,000 - $1,190)

So when your small-business client begins looking for a way to take care of their key employees with a product whose value is rising in the eyes of the perceptive public, try suggesting LTCI to them for the selectivity and the tax relief.

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