SecureCare Universal Life

2019 tax presentation

Insurance products issued by Minnesota Life Insurance Company

Agenda

- SecureCare’s deductibility
- Individuals and SecureCare tax treatments
  - Income tax deductions
  - HSAs and LTC premiums
  - Other tax implications
- Business-sponsored arrangements
  - Pass-through entities
  - C-corporations
  - Employees

Why are SecureCare premiums deductible?

Why are long-term care (LTC) premiums deductible?

- Must be qualified LTC product
  - Can be stand alone or linked-benefit contract
  - Requirements:
    - Pay for LTC costs
    - No cash value

Source: Internal Revenue Code (IRC) section 7702B

Two parts of a SecureCare product

Cash Value	Not-deductible (Life)	Face amount (base life insurance)
No Cash Value	Deductible (LTC)	Acceleration for Long-Term Care Agreement Extension of Long-Term Care Benefits Agreement Long-Term Care Inflation Protection Agreement

Individuals

Income tax deduction for LTC premiums – three steps

Step 1: Determine the amount of LTC premium paid

Deductible (LTC)

- Acceleration for Long-Term Care Agreement
- Extension of Long-Term Care Benefits Agreement
- Long-Term Care Inflation Protection Agreement

Step 2: Review age-based limitations

Attained-age before the close of the taxable year	2018 limit	2019 limit
40 or less	$420	$420
41-50	$780	$790
51-60	$1,560	$1,580
61-70	$4,160	$4,220
71+	$5,200	$5,270

Source: IRC Section 213(d)(1)(D)

Step 3: Itemized deduction for medical expenses is the lesser of the LTC premium or age-based limit

- **Example 1:** Mike, age 55
  - Annual LTC premium: $5,000
  - Age-based limit: $1,580
  - **Deduction = $1,580**
- **Example 2:** Mariana, age 72
  - Annual LTC premium: $5,000
  - Age-based limit: $5,270
  - **Deduction = $5,000**

These are hypothetical examples for illustrative purposes only.

Where are the itemized deductions?

Current income

− Above-the-line deductions

Adjusted gross income (AGI)

− **Standard deduction OR itemized deduction**

Taxable income

Standard deduction versus itemized deductions

Standard Deduction

- Married filing jointly: $24,400
- Single: $12,200

Itemized Deductions

- Medical expenses
  - 10% AGI threshold
  - **LTC premiums** and other expenses
- State and local taxes
  - $10,000 maximum
- Mortgage interest deduction
- Charitable deduction
  - Up to 60% of AGI

Which clients will get the itemized deduction?

- Clients who:
  - are older (age-based limitations)
  - have large amounts of out-of-pocket medical expenses
  - live in states with high state taxes
  - make large charitable gifts
  - pay large amounts of mortgage interest

Health Savings Accounts and LTC premiums

Can a Health Savings Account (HSA) be used to pay the premiums for a SecureCare policy?

- Yes, premiums are a qualified medical expense
- Only the LTC premiums (not life portion) can be paid from an HSA
- Up to the age-based limits

Example

Larry, age 67, pays $15,000 annual premium, for seven years, to a SecureCare policy and has $30,000 in his HSA account

- LTC portion of the premium: $5,407.33
- Age-based limit: $4,220

- **Larry's HSA pays: $4,220**
- **Larry pays (out of pocket): $10,780**

This is a hypothetical example for illustrative purposes only.

Other tax implications

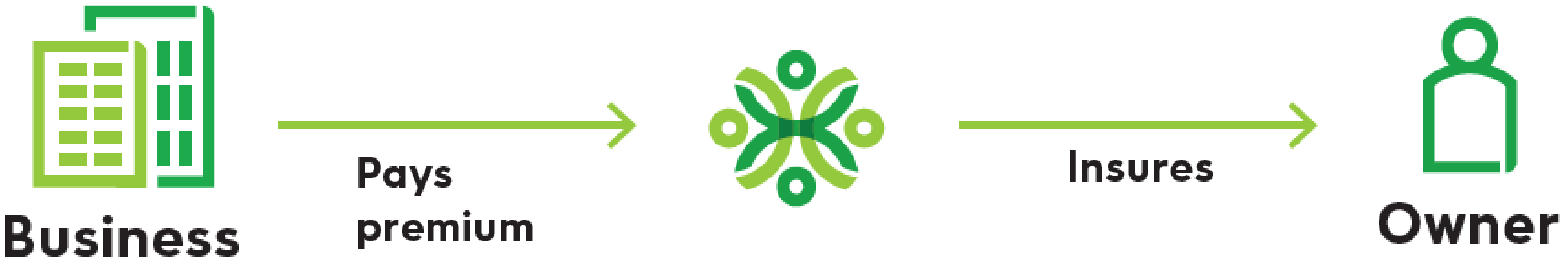
Other tax implications

- LTC Agreement payments will not be subject to income tax if:
  - Up to the per diem limit ($370 in 2019)
  - If it exceeds per diem, then must show documented qualified LTC expenses
- May be a modified endowment contract (MEC)
- 1035 Exchanges are permitted
- Death benefit is income tax free

Business-sponsored arrangements

Pass-through entities

Pass-through entity owners



- One level of taxation: business income “passes through” to the owner
- Business pays premium to Securian Financial (deductible to owner as an above the line deduction – lesser of LTC premium or age-based limitation)
- Securian Financial applies premium to a policy on the owner

Where are the above-the-line deductions?

Current income

- **Above-the-line deductions**

Adjusted gross income

- Standard deduction OR itemized deduction

Taxable income

Pass-through entities

Entity	Business tax deductions	Premium payments included in income	Income tax deduction
S corporation	As compensation	Both life and LTC portions included	Above-the-line, as self-employed health insurance deduction
Partnership	As guaranteed payments		
Sole proprietor	As compensation		

Case study: Bruce (S corporation owner)

- Bruce (age 47) is employee/owner of XYZ Corporation (S corporation) and has two employees
- He wants to provide SecureCare to both himself and his employees
- XYZ is willing to pay $10,000 premiums for 15 years for Bruce
  - Male (age 47) with non-tobacco underwriting rating
  - 6-year benefit: 2-year Acceleration for Long-Term Care Agreement and 4-year Extension of Long-Term Care Benefits Agreement
  - 3% Compound Long-Term Care Inflation Protection Agreement

This is a hypothetical example for illustrative purposes only.

Case study: Bruce tax implications

- $150,000 premium paid over 15 years
  - Annual premium: $10,000
    - Face amount: $5,034.39
    - Acceleration for Long-Term Care Agreement: $861.61
    - Extension of Long-Term Care Agreement: $651.33
    - Long-Term Care Inflation Protection Agreement: $3,452.62

Year	LTC Premium	Age-based (assuming no inflation)	Lessor of: (Above-the-line deduction)
1 (Age 47)	$4,965.61	$790	$790
8 (Age 51)	$4,965.61	$1,580*	$1,580*
14 (Age 61)	$4,965.61	$4,220*	$4,220*

This is a hypothetical example for illustrative purposes only.

Case study: guarantee #1 – if Bruce needs long-term care

Acceleration for LTC Benefit	Extension of LTC Benefits	Total LTC Benefits Available

3% compound inflation benefit

Day 1: $157,985	Day 1: $345,421	Day 1: $503,406
Age 80: $419,030	Age 80: $916,172	Age 80: $1,335,202
2 years acceleration	4 years extension	6 total years of LTC benefit payments

Plus, $10,000 death benefit paid to Bruce's beneficiaries income tax free

This is a hypothetical example for illustrative purposes only.

Case study: guarantees #2 and #3

If Bruce dies before needing LTC

$155,651 → Minimum amount paid income tax-free to Bruce's beneficiary(ies)[1]

If Bruce wants his money back, full return of premium beginning in year 6[2]

$150,000 → Paid to Bruce

[1]This figure represents the death benefit we calculate taking into consideration the premium paid that is allocated to the death benefit and applicable requirements under the IRC. The amount paid will be reduced by any terminal illness benefit payments, premium due, partial surrenders, and any indebtedness.
[2] Upon surrender, the policy owner will receive the surrender value proceeds. The surrender value proceeds may not equal the sum of premiums paid. Surrenders are subject to a return of premium vesting schedule. Policies that are fully vested are eligible for a full return of all premiums paid.

This is a hypothetical example for illustrative purposes only.

Case study: guarantee #4 – if XYZ provides no additional premiums

	Reduced Paid-Up Benefits[1]		
Year	Death Benefit	Total LTC Benefits	Monthly Maximum Benefit
1	$0	$0	$0
2	$5,536	$18,995	$245
3	$19,194	$67,834	$874
4	$32,442	$118,093	$1,521
5	$45,277	$169,758	**$2,187**
6	$57,712	$222,873	$2,871
7	$69,775	$277,542	$3,576
8	$81,489	$333,860	$4,301
9	$92,884	$391,962	$5,050
10	$103,985	$451,971	$5,823
11	$114,808	$513,983	$6,622
12	$125,371	$578,111	$7,448
13	$135,687	$644,451	$8,303
14	$145,773	$713,125	$9,187
15	$155,651	$784,292	$10,104

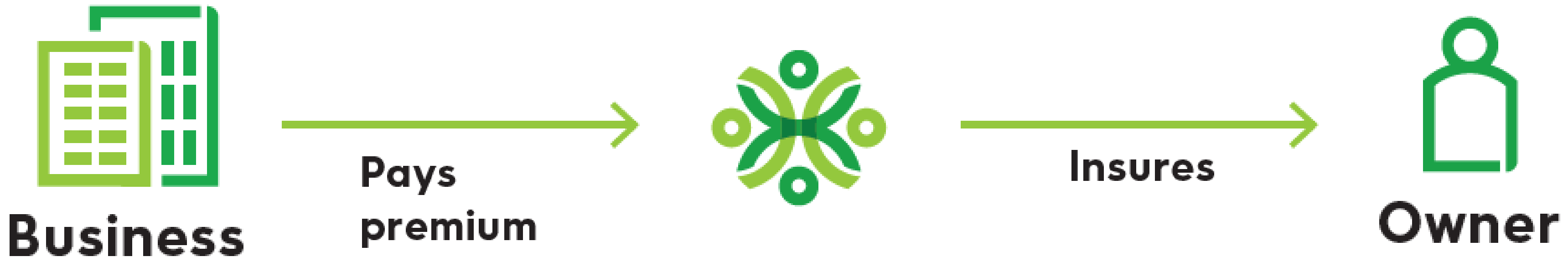
[1]Reduced paid-up benefits refers to the reduced paid-up nonforfeiture benefit that purchases paid-up insurance in the event of premium lapse.
This is a hypothetical example for illustrative purposes only.

C corporation owners

Tax law opportunity: C corporations

- Two levels of taxation for shareholders:
  1. NEW business income: 21% rate (decrease of up to 14%)
  2. Shareholder income: dividend (qualified → long term capital gains)
- Business has more retained earnings than the past
- Shareholders looking for tax-efficient methods to take income from business

C corporation owners



- Business pays premium (fully deductible) to Securian Financial
- Securian Financial applies premium to a policy on the owner*
  - Life insurance part is includible in income
  - LTC part is not includible in income
- If not an employee, no business deduction and included in shareholder's income

* Plus spouses and dependents of owner/employee.

Case study: ABC Corporation

- ABC Corporation (C corporation)
  - Business income of $1 million in 2019 → $790,000 after tax
  - 30 employees
  - Have valid class of employees for LTC benefits
- Nancy (age 60): employee and 50% owner of ABC Corporation
- Paul (age 50): not employee and 20% owner of ABC Corporation

This is a hypothetical example for illustrative purposes only.

Case study: Nancy (C corporation)

- ABC is interested in providing SecureCare product solutions and Nancy is part of the valid class of employees
  - ABC will pay premiums of $20,000 for 5 years for a SecureCare policy on Nancy which she will own
  - Female, age 60, non-tobacco underwriting rating, couples discount
  - 6-year benefit: 2-year Acceleration for Long-Term Care Agreement and 4-year Extension of Long-Term Care Benefits Agreement
  - 5% Compound Long-Term Care Inflation Protection Agreement

This is a hypothetical example for illustrative purposes only.

Case study: Nancy (C corporation)

Business

Annual business tax deduction of $20,000

Nancy

Includes $5,057.03 in income

$100,000 in premium paid over 5 years

- Annual premium: $20,000
  - Face amount: $5,057.03
  - Acceleration for Long-Term Care Agreement: $1,835.52
  - Extension of Long-Term Care Agreement: $1,351.92
  - Long-Term Care Inflation Protection Agreement: $11,755.46

This is a hypothetical example for illustrative purposes only.

Case study: Paul

- Paul is interested in purchasing a SecureCare policy
- Pay premiums of $20,000 for 5 years
  - Male (age 60) non-tobacco underwriting rating
  - 6-year benefit: 2-year Acceleration for Long-Term Care Agreement and 4-year Extension of Long-Term Care Benefits Agreement
  - 5% Compound Long-Term Care Inflation Protection Agreement

This is a hypothetical example for illustrative purposes only.

Case study: Paul (C corporation)

Business

No tax deduction

Paul

Includes $20,000 in income

$100,000 in premium paid over 5 years

Annual premium: $20,000

Face amount: $6,924.59

Acceleration for Long-Term Care Agreement: $1,195.95

Extension of Long-Term Care Agreement: $897.31

Long-Term Care Inflation Protection Agreement: $10,982.25

This is a hypothetical example for illustrative purposes only.

Employees

Employees

- Business pays premium (fully deductible) to Securian Financial
- Securian Financial applies premium to a policy on the employee
  - Must have a valid class of employees
  - Life insurance part is includible in income
  - LTC part is not includible in income

Please note: Employees of sole proprietorships are different. Taxable to employee and above-the-line deduction for owner.

Case study: Chuck (employee)

- Chuck (age 55) is an employee of Widget Inc.
- Widget Inc. wants to provide a long-term care solution to Chuck and other employees (valid class)
  - Widget is willing to pay $10,000 for 7 years for a male (age 55) with non-tobacco underwriting rating
  - 6-year benefit: 2-year Acceleration for Long-Term Care Agreement and 4-year Extension of Long-Term Care Benefits Agreement
  - With 3% Compound Long-Term Care Inflation Protection Agreement

This is a hypothetical example for illustrative purposes only.

Case Study: Chuck (employee)

Business

Annual business tax deduction of $10,000

Chuck

Includes $5,473.13 in W-2 income

$70,000 in premium paid over 7 years

- Annual premium: $10,000
  - Face amount: $5,473.13
  - Acceleration for Long-Term Care Agreement: $961.73
  - Extension of Long-Term Care Agreement: $711.61
  - Long-Term Care Inflation Protection Agreement: $2,853.56

This is a hypothetical example for illustrative purposes only.

Any questions?

SecureCare may not cover all of the costs associated with long-term care or terminal illness the insured incurs. This product is generally not subject to health insurance requirements. This product is not a state-approved Partnership for Long Term Care Program product, and is not a Medicare Supplement policy. Receipt of a long-term care or terminal illness benefit payment under this product may adversely affect eligibility for Medicaid or other government benefits or entitlements.

SecureCare Universal Life Insurance includes the Acceleration for Long-Term Care Agreement. The Acceleration for Long-Term Care Agreement and Extension of Long-Term Care Benefits Agreements are tax qualified long-term care agreements that cover care such as nursing care, home and community based care, and informal care as defined in these agreements. These agreements provide for the payment of a monthly benefit for qualified long-term care services. These agreements are intended to provide federally tax qualified long-term care insurance benefits under Section 7702B of the Internal Revenue Code, as amended. However, due to uncertainty in the tax law, benefits paid under these agreements may be taxable.

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Guarantees are subject to the terms and conditions of the policy and the financial strength and claims-paying ability of the issuing company.

The death proceeds will be reduced by a long-term care or terminal illness benefit payment under this policy. Please consult a tax advisor regarding long-term care benefit payments, terminal illness benefit payments, or when taking a loan or withdrawal from a life insurance contract

Life insurance products contain fees, such as mortality and expense charges, and may contain restrictions, such as surrender periods.
The optional Long-Term Care Inflation Protection Agreement is available with 3% simple interest, 3% compound interest, 5% simple interest or 5% compound interest.

Additional agreements may be available. Agreements may be subject to additional costs and restrictions. Agreements may not be available in all states or may exist under a different name in various states and may not be available in combination with other agreements.

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