



**THE BOTTOM LINE on  
Federal Tax Incentives for Long-Term Care Insurance:  
Actuarial Issues and Public Policy Implications**

Public funding of long-term care (LTC) services faces an uncertain future as the aging of the baby-boom generation threatens the financial health of such services. The growth of long-term care insurance (LTCI) coverage, however, could mitigate this effect. A tax policy that provides incentives for private long-term care insurance is one way to ease the pressure and increase the availability of long-term care coverage to those who need it.

The number of private LTCI policies purchased has increased about 70 percent since passage of the Health Insurance Portability and Accountability Act of 1996 (HIPAA), which allowed for the pre-funding of LTC costs through private insurance. However, the number of individuals covered by LTCI remains small. Currently, less than 10 percent of the U.S. population aged 65 and over has purchased private LTCI coverage. Consequently, recent budget surpluses have led Congress to seriously consider additional tax incentives to promote the purchase of private LTCI.

Publicly funded LTC under Medicaid (currently the largest source of funding for LTC expenses) and Medicare is primarily financed on a pay-as-you-go basis. Private LTCI allows advance funding of LTC costs. The current blend of private LTCI and public LTC systems could become more effective with additional tax incentives. Such incentives could stimulate the growth of private LTCI, thereby relieving some of the pressure on the already strained Medicaid program.

Tax subsidies provide two very important incentives to encourage the purchase of LTCI. First, the tax savings make the insurance more affordable. Second, the existence of a tax subsidy leads to publicity and education, making the public more aware of the option of pre-funding the LTC risk.

This issue brief discusses the actuarial and public policy implications of using federal tax incentives to encourage the purchase of private long-term care insurance.

Possible options for tax incentives discussed in this issue brief include:

- Providing above-the-line income tax deductions and/or tax credits
- Providing deductions through cafeteria plans and flexible spending accounts
- Allowing premium payments without penalty from IRA, 401(k), and similar tax-deferred retirement accounts.

Possible strategies to limit losses in tax revenues discussed in this issue brief include:

- Setting maximum caps for the amount of tax incentive
- Adding income phase-out amounts to target lower income taxpayers
- Setting an age cap on tax incentive eligibility
- Limiting tax incentives for a specific number of years.

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