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The self-funding trap: paying for care

What's the most tax-efficient way to pay for LTC?

Affluent clients often assume they can draw from investment assets if long-term care (LTC) is ever needed. However, funding care through taxable distributions can create unintended tax consequences, such as higher federal income taxes and Medicare surcharges known as IRMAA (Income-Related Monthly Adjustment Amount).

Self-funding care can create a compounding tax issue for affluent retirees:

- Additional withdrawals increase taxable income
- Higher income can trigger or increase Medicare IRMAA surcharges
- Clients may be forced to liquidate assets inefficiently

> **For these clients, the key question isn't whether they can afford care, it's whether self-funding is the most efficient use of their assets.**

Ready to connect?

Contact your SecureCare™ sales team:

1-877-696-6654
(Broker-Dealer)

1-888-900-1962
(Independent Distribution)

What is IRMAA?

IRMAA is a Medicare surcharge that impacts high-income earners. It's based on an individual's modified adjusted growth income (MAGI) two years prior.

2026 Medicare premiums

Part B standard monthly premium: $202.90

Part D average monthly premium: $34.50

Expected premium: $237.40

2024 individual tax return with MAGI of:	2024 joint tax return with MAGI of:	IRMAA for Part B monthly cost	IRMAA for Part D monthly cost	Total estimated monthly cost (IRMAA + Medicare premiums)
$109,001 – $137,000	$218,001-$274,000	$81.20	$14.50	$333.10
$137,001 – $171,000	$274,001-$342,000	$202.90	$37.50	$477.80
$171,001 – $205,000	$342,001-$410,000	$324.60	$60.40	$622.40
$205,001 – $499,999	$410,001-$749,999	$446.90	$83.30	$767.60
$500,000+	$750,000+	$487	$91	$815.40

The self-funding tax trap: Paying for care with taxable distributions

Linda, age 85 experiences an LTC event

- Annual in-home care need: $100,000
- Annual taxable income for basic needs: $105,000

Scenario	LTC need	Basic income need	Total taxable income	Federal tax liability	IRMAA additional surcharge	Total tax and IRMAA
Taxable distribution	$100,000	$105,000	$205,000	$42,055	$4,620	$46,675

Linda has $46,675 additional costs related to taxes and IRMAA surcharges

This is a hypothetical example for illustrative purposes only.

An alternative approach: Create a tax-efficient LTC funding strategy with SecureCare™ IV

LTC and nonparticipating whole life insurance

Instead of relying entirely on taxable portfolio withdrawals, Linda purchases SecureCare IV at age 60 to help address long-term care risk. She gets a 10-pay with a $10,000 annual premium, LTC Boost return of premium option, 3% compound inflation option and a 6-year LTC benefit.

If Linda goes on claim at age 85, she can access tax-free[1] LTC benefits to help cover care expenses.

Scenario	LTC need	Basic income need	Total taxable income	Federal tax liability	IRMAA additional surcharge	Total tax and IRMAA	Tax savings
Taxable distribution	$100,000	$105,000	$205,000	$42,055	$4,620	$46,675	**$0**
Tax-free LTC benefit	$113,227	$105,000	$105,000	$14,270	$0	$14,270	**$32,405**

Linda can save $32,405 in taxes and no IRMAA surcharges

Your opportunity

By replacing taxable portfolio withdrawals with tax-free LTC benefits, you can help clients:

- Reduce taxable income
- Avoid or minimize Medicare IRMAA surcharges
- Preserve retirement assets
- Maintain greater flexibility during retirement

1. Benefits under a qualified long-term care insurance contract are generally excluded from federally taxable income, provided they do not exceed a per diem limit established by the federal tax code. If the benefits received exceed this per diem limit, the excess may still qualify for exclusion from income under the federal tax code if the recipient can document qualified long-term care expenses that are equal to or greater than the benefit amount. Clients should consult with a qualified tax advisor to understand how these rules apply to their individual circumstances and to ensure proper tax reporting.

Case ID: 28267234. This is a hypothetical example for illustrative purposes only and cannot be shared with the general public. A customer's experience may be different depending on their specific situation. When providing personalized illustrations to customers, it must always be accompanied by a complete basic illustration.

Please keep in mind that the primary reason to purchase a life insurance product is the death benefit.

Life insurance products contain charges, such as Cost of Insurance Charge, Cash Extra Charge, and Additional Agreements Charge (which we refer to as mortality charges), and Premium Charge, Monthly Policy Charge, Policy Issue Charge, Transaction Charge, and Surrender Charge (which we refer to as expense charges). This policy may contain restrictions, such as surrender periods.

SecureCare IV may not be available in all states. Product features, including limitations and exclusions, may vary by state.

SecureCare IV includes the Acceleration for Long-Term Care Agreement and Extension of Long-Term Care Agreement. These two 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 the agreement. 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. Please ensure that your clients consult a tax advisor regarding long-term care benefit payments, or when taking a loan or withdrawal from a life insurance contract.

The death benefit proceeds, return of premium amount and long-term care benefit amounts depend, in part, on the return of premium option selected on the policy application. For more information regarding return of premium options, please review the policy carefully.

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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