

# MetLife Individual Long-Term Care Release for MetLife LTC Brokerage Agents

## *Health Savings Accounts and Long-Term Care Insurance*

### *What's Up?*

Signed into law last December, the Medicare Act of 2003 provides for new "Health Savings Accounts," which offer Americans a way to save by paying for "qualified medical expenses" with pre-tax dollars. Because "qualified medical expenses" include premiums on qualified long-term care insurance contracts, up to certain age-related maximums, these accounts can also be used to pay for Long-Term Care Insurance on a pre-tax basis.

### What Is an HSA?

A Health Saving Account, or HSA, is covered under Section 223, a new section of the Internal Revenue Code, whereby any "eligible individual" with a "high deductible health plan" can contribute to an HSA. In general, HSAs:

- May be funded by tax-deductible contributions from either employees or employers;
- Are not limited to self-employed individuals or small employers;
- Distributions are excluded from income when used for qualified medical expenses;
- Are owned by the individual and completely portable; and
- Unused balances may be carried forward from year to year.

### Who Is Eligible?

Effective January 1, 2004, individuals who are covered under "high deductible health plans," and not Medicare, are eligible and may deduct amounts paid into HSAs (subject to certain limits) from their gross federal taxable income.

### What Is a "High Deductible Health Plan?"

These are health plans with a minimum deductible of \$1,000 for self-only coverage or \$2,000 for family coverage. Also, the total out-of-pocket expense, including the deductible, to the individual cannot be more than \$5,000 for self-only coverage or \$10,000 for family coverage.

HSA contribution amounts are specifically tied to the deductible for the individual's health plan and cannot exceed \$2,600 for self-only coverage or \$5,510 for family coverage in 2004 (higher amounts are permitted for individuals between the ages of 55 and 65).

Contributions may continue until the person becomes eligible for Medicare. Once a person is eligible for Medicare, contributions may no longer be made to an HSA.

To encourage adoption among older individuals, a "Catch-up" provision helps older workers contribute more. Under this provision, the IRS allows people between 55 and 65 to contribute an additional \$500 to their HSAs in 2004, provided the total amount contributed does not exceed the deductible. The "catch-up" amount will increase in \$100 increments each year until 2009, when it reaches \$1,000.

What Are the LTC/LTC Insurance Implications?

Beginning in 2004, anyone who participates in an HSA will be able to pay up to the age-related "eligible" portion of premiums for tax qualified Long-Term Care Insurance plans from their HSA. The HSA also may be able to cover some of their qualified long-term care expenses.

The amount of "eligible" LTCI premium that can be included is limited to the age-based amounts per Section 213(d)(10) (A) of the Internal Revenue Code.

**The allowable eligible long-term care premium amounts are shown below:**

<u>Age at End of Taxable Year:</u>	<u>2004</u>
40 and younger	<b>\$260</b>
41 - 50	<b>\$490</b>
51 - 60	<b>\$980</b>
61 - 70	<b>\$2,600</b>
71 and older	<b>\$3,250</b>

*The premium limits are per person.*

**For example:** In 2004, a person, age 62 would be able to offset the annual cost of qualified LTC Insurance premiums by paying the \$2,600 age-eligible amount of his or her premium with pre-tax dollars from the HSA (this assumes that the individual purchased a health plan with a deductible of at least \$2,600 and contributed the full amount of the deductible to the HSA, and also, has no need or desire to cover other medical expenses from the HSA). Plus, if their spouse, age 55, also had an HSA, the spouse would have \$980 in eligible funds from the HSA to pay his or her LTC Insurance premium. Together, the couple would have an eligible \$3,580 to use tax-free to pay their LTC Insurance premiums.

Unreimbursed expenses for qualified long-term care services are also eligible. Any payment for qualified medical expenses, including the LTC Insurance premiums, for which a payment or distribution out of a health savings account was received, may not be included as a medical expense on Schedule A of Form 1040.

How Do You Establish An HSA?

Generally, an HSA must be established as a trust that is trustee by a bank, an insurance company or another person approved by the Secretary of the Treasury. (MetLife is not currently offering HSAs.)

The HSA does not have to be established with the provider of the eligible individual's high-deductible health insurance plan. Any insurance company or any bank can be an HSA trustee or custodian. Any other entity already approved to provide IRAs or MSAs is automatically approved to offer HSAs.

***Your eligible clients should consult their own legal or tax advisors. Neither MetLife nor its agents are authorized to practice law or to provide legal, accounting or tax advice.***

What if I Have Questions?

Contact a tax specialist or tax advisor for specific details.