MetLife's Long Term Care Acceleration of Death Benefit Rider

Frequently Asked Questions

MetLife

MetLife's Long Term Care Acceleration of Death Benefit Rider ("LTC ADBR") is available on all MetLife Promise Whole Life℠ portfolio products except MetLife Promise Whole Life 65℠.

When the LTC ADBR is purchased, if the insured becomes chronically ill and receives qualified long-term care services under a plan of care, a portion of the death benefit may be paid out during the insured's lifetime.[1] These living benefits can enhance the utility and flexibility of a whole life insurance policy.

Read through the questions and answers below to learn about federal tax benefits and considerations associated with the LTC ADBR. Prior to determining whether this rider may meet a customer's needs, be sure to review important non-tax benefits and considerations as well.

Note: MetLife, its agents and representatives do not provide tax and legal advice. This document is for general informational purposes only and does not purport to be complete or cover every situation. Tax law is subject to interpretation and change. Tax results and the appropriateness of any product for a specific taxpayer may vary depending on the facts and circumstances. Customers should consult their qualified attorney and/or tax advisor regarding their particular facts and circumstances.

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1. Will benefits paid under the LTC ADBR impact the tax computations relating to the definition of life insurance under IRC § 7702 and the definition of a modified endowment contract under IRC § 7702A?

Generally, yes. Benefits paid will generally cause adjustments to the limits that apply for tax testing purposes.

2. Are premium payments for the LTC ADBR deductible for income tax purposes?

In general, when premiums for the LTC ADBR are paid out of pocket, to the extent the insured is the policy owner,[1] the policy owner's spouse or dependent, premiums for the rider may be deductible up to certain limits assuming the taxpayer itemizes his/her deductions and has medical expenses in excess of 10% of adjusted gross income (for 2016 only, 7.5% of adjusted gross income if the taxpayer or his/her spouse is 65 or older). The limits are adjusted over time for inflation and vary dependent upon the age of the policy owner.

When premiums for the LTC ADBR are paid from policy values, they are not deductible.

When premiums for the LTC ADBR are paid from policy dividends or automatic policy loans, deductibility is unclear. Arguably, they may be deductible (albeit subject to the same limits, conditions, and thresholds discussed above) since neither mode of payment involves a charge against the cash surrender value of the base life insurance policy. Policy owners should discuss with their tax advisor whether premiums paid in this manner are deductible.

[1] See the LTC ADBR for definitions

3. How does the payment of premiums for the LTC ADBR affect basis in the underlying life insurance policy?

In general, out-of-pocket premiums directly applied to the LTC ADBR are not counted as premium for purposes of determining basis in the life insurance contract.

In general, premiums paid from policy values or dividends will reduce basis (but not below zero) but are not subject to income tax, even where there is no remaining basis or if the policy is a modified endowment contract ("MEC") with gain. Charges against the cash value to pay for the LTC ADBR are reported on IRS Form 1099-R even though they are not taxable.

4. How are the monthly LTC benefits[1] taxed for income tax purposes when the insured is the owner?

The LTC ADBR is intended to be a qualified long-term care insurance contract under IRC § 7702B of the Internal Revenue Code, and benefits received up to the per diem limitation are intended to be income tax-free under IRC § 104(a)(3). Income tax-free benefits may be received even if the life insurance policy is a MEC.

The per diem limitation is an amount equal to:

- The greater of 1) the IRS dollar limit in effect for the applicable period (in 2016, this amount is $340 per day ($124,100 per year)); or 2) costs incurred for qualified long-term care services provided for the insured during the applicable period.

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- Aggregate payments received as reimbursements (through insurance or otherwise) for qualified long-term care services provided for the insured during the applicable period.

The IRS dollar limit applies to the total periodic payments received with respect to the insured in the applicable period under all:

- Qualified long-term care insurance contracts; and
- Life insurance contracts with accelerated death benefit riders due to chronic illness.

The maximum annual benefit under the LTC ADBR will not exceed the annual IRS dollar amount.

However, benefits under the LTC ADBR may be taxable when the benefits received are in excess of the per diem limitation.[2] This could occur for example when, in addition to payments under the LTC ADBR, payments are received 1) as reimbursements for qualified long-term care services provided for the insured; and/or 2) from multiple per diem type contracts.

5. Is third party ownership permitted and, if so, does this have tax implications?

In general, MetLife does not prohibit the purchase of the LTC ADBR by an individual or entity other than the insured.

From a practical perspective, the third party will need cooperation from the insured to submit the documentation necessary to receive benefits. Benefits are paid to the third party owner and thus may be unavailable to the insured.

In general, the tax implications associated with third party ownership are not clear. Ownership by an individual or entity other than the insured may have income, gift and/or estate tax implications. Purchase of the LTC ADBR by other than the insured should be considered only after careful review with the policy owner's own tax and legal advisors.

6. What are the tax considerations when a third party owner is an individual and the life insurance isn't purchased for business related reasons?

Income Taxes

Assuming the monthly LTC benefits received by an owner who is not the insured (e.g., the insured's spouse, sibling, child, etc.) qualify for an income exclusion under IRC § 104(a)(3), they should generally be income-tax free subject to the per diem limitation discussed above in Q&A 4. The per diem limitation is first allocated to the insured and any remaining limitation is allocated among others receiving benefits with respect to the same insured.

[2] For policy owners who are New York residents at issue, benefit payments will only be made if they are subject to favorable federal tax treatment. When determining whether the benefit payments will receive favorable federal tax treatment, the payment of benefits from all insurance policies must be considered.

Gift Taxes

Transfers of the monthly LTC benefit by a policy owner to the insured may result in gift tax implications. Generally, transfers to one's spouse shouldn't have gift tax consequences. However, transfers between other parties, for example from a child to a parent or from a sibling to a sibling, could be deemed a taxable gift. To the extent the benefits received by a third party are paid directly to the insured's medical provider to cover the insured's medical expenses, the amount so paid may not be deemed a gift.

Estate Taxes

From an estate tax perspective, if the insured is deemed to possess an incident of ownership in a life insurance policy, the death benefits will be included in the insured's estate. An incident of ownership includes the right of the insured to the economic benefits of a life insurance policy.

IRC § 7702B(e)(1) provides that when LTC insurance coverage is provided by a rider on a life insurance contract, the portion of the contract providing such LTC insurance coverage is a separate contract. Nonetheless, if a policy owner were to distribute the monthly LTC benefits to the insured due to an agreement with him or her, the insured may be deemed to have an incident of ownership in the policy, thus resulting in the inclusion of life insurance death proceeds in the insured's estate for estate tax purposes.

7. What are the tax considerations when a trust is the owner?

Assuming the benefits paid to the trust qualify for an income exclusion under IRC § 104(a)(3), benefits paid should be taxed similarly to the income taxation of third party individual owners discussed in Q&A 6. In the event the benefits are received by grantor type trust, the grantor (who may be the insured) would report on his/her own income tax return any items of trust income, including LTC ADBR benefits in excess of the per diem limitation.

There may be gift tax implications to the extent LTC benefits are distributed to trust beneficiaries who in turn transfer these amounts to the insured. Additionally, there may be estate tax implications if pursuant to an agreement, LTC benefits are paid to the insured. See Q&A 6 for further information about gift and estate tax considerations.

8. What are the tax considerations when the policy is business related?

The income tax implications associated with business related policies are not clear.

IRC § 101(g)(5) does not provide an exclusion from income for accelerated death benefits on account of chronic illness received under a business related policy. A business related policy is defined as a policy where the policy owner has an insurable interest in the insured because the insured is an officer, employee, or director of the taxpayer or because the insured is financially interested in any trade or business carried on by the owner. This would include key person policies as well as policies purchased in a buy-sell context.

The LTC ADBR is intended to be a qualified long-term care insurance contract under IRC § 7702B. Though some support exists for the non-application of IRC § 101(g)(5) to benefits paid under the rider, given the lack of legislative and/or IRS guidance, it is possible that benefits received under business related policies may be taxable.

No formal guidance has been issued with respect to the taxation of similar benefits received under a corporate (or private) split dollar arrangement.

9. Can a life insurance contract with or without a qualified LTC insurance rider qualify for a § 1035 tax-free exchange into another life insurance contract with or without such a rider?

Presumably yes. IRC § 1035 permits the tax-free exchange of a life insurance contract for another life insurance contract, an endowment contract, annuity contract, or for a qualified long-term care insurance contract. A contract won't fail to be treated as a life insurance contract solely because it has qualified long-term care insurance rider.

10. What tax forms will be issued when benefits are paid from the LTC ADBR?

In January following the year in which benefits are paid, MetLife will issue IRS Form 1099-LTC to the policy owner. This form will also be filed with the IRS. This form will show the total amount of benefits paid under the rider during the previous year. Individuals will need to file IRS Form 8853 to determine taxability of benefits.

Financial professionals must be licensed to sell life insurance, and also TO SELL accident/sickness/health insurance, as required by the states in which policies will be issued. THEY MUST BE certified to sell long-term care insurance if so required by that state and MUST BE CURRENT ON all necessary continuing education requirements.

New York has an approved rider that provides for acceleration of the death benefit in the event that the insured needs long-term care, as defined by the rider. It is not a long term care policy in this state, and consequently producers do not need to obtain a health insurance nor a LTC certification. MetLife's LTC training will still be required.

There are differences between the NY rider and the LTC rider described above, notably that: care must be provided pursuant to a plan of care certified by a licensed health care practitioner (and not a physician); there is no elimination period; and benefits are paid retroactively after the expiration of the eligibility period.

Any benefits received under this rider may adversely affect the recipient's eligibility for public assistance programs; and the benefits received under this policy may be taxable.

MetLife Promise Whole Life, MetLife Promise Whole Life 120, MetLife Promise Whole Life Select 10, MetLife Promise Whole Life Select 20, and MetLife Promise Whole Life Select 65 are issued by MetLife Insurance Company USA generally on Policy Form 5E-12-10 in all jurisdictions except New York, where they are issued by Metropolitan Life Insurance Company on Policy Form 1-15-13-NY. All guarantees are subject to the claims-paying ability and financial strength of the issuing insurance company.

MetLife

Metropolitan Life Insurance Company
200 Park Avenue
New York, NY 10166
metlife.com

MetLife Insurance Company USA
11225 North Community House Road
Charlotte, NC 28277

1605-549049 CS BDWL541784