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Metropolitan Life Insurance Company ("MetLife") ExecutiveCare℠

MetLife's Long-Term Care Insurance Executive Benefit Program

MetLife Investors • **L06079UZ9(exp0707)MLIC-LD**

ADF# 1665.06

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What’s our mission here today?

- To help owners protect their future and those of selected employees against the potentially devastating cost of long-term care services.
- To help business owners create an executive benefit plan for themselves and/or key employees.
- The inclusion of an option, Return of Premium Rider, which can return premium to insured’s estate or a designated beneficiary.
- To provide a program that has the potential to offer some favorable tax benefits to the business.

*May result in a taxable event to your estate/designated beneficiaries if premiums are returned, upon the death of the insured, if the policy has been in effect for 10 years, less any claims incurred.

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Disclaimer

Neither MetLife nor its representatives or agents are permitted to give legal or tax advice. Any discussion of taxes included in or related to this document is for general informational purposes only. Such discussion does not purport to be complete or to cover every situation.

Current tax law is subject to interpretation and legislative change. Tax results and the appropriateness of any product for any specific taxpayer may vary depending on the particular set of facts and circumstances. You should consult with and rely on your own independent legal and tax advisors regarding your particular set of facts and circumstances.

Circular 230 Notice:

Pursuant to IRS Circular 230, MetLife is providing you with the following notification: The information contained in this document is not intended to (and cannot) be used by anyone to avoid IRS penalties. This document supports the promotion and marketing of insurance products. You should seek advice based on your particular circumstances from an independent tax advisor – Neither MetLife nor its representatives provide tax or legal advice.

Health Insurance Portability and Accountability Act of 1996

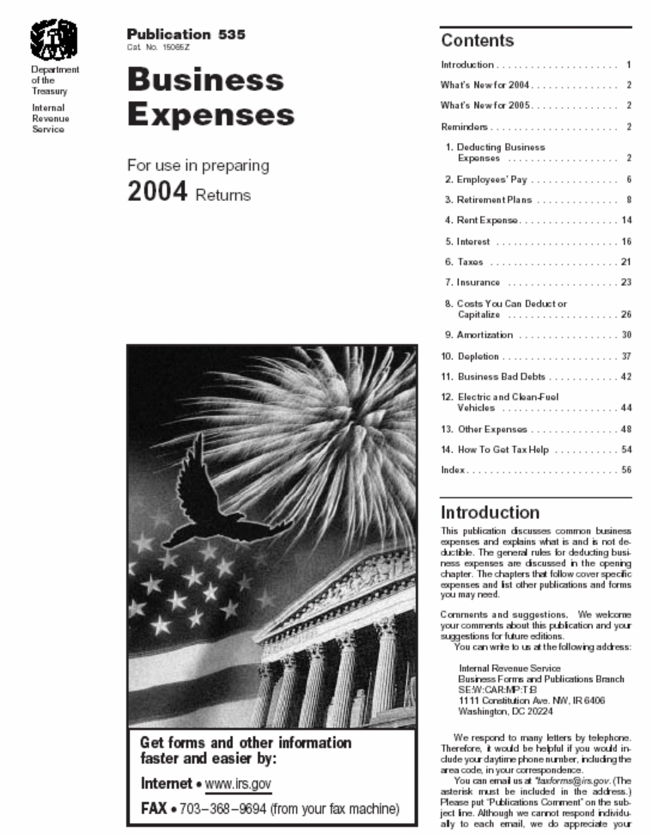
"To amend the Internal Revenue Code of 1986 to improve portability and continuity of health insurance in the group and individual markets, to combat waste, fraud and abuse in health insurance and health care delivery, to promote the use of medical savings accounts, to improve access to long term care services and coverage, to simplify the administration of health insurance, and for other purposes."

Source: Health Insurance Portability and Accountability Act of 1986
Public Law 104-920- August 21, 1996

Tax Considerations

Qualified Long-Term Care Insurance and expenses:

- Qualified Long-Term Care Insurance contracts are generally treated as accident and health insurance contracts. Individuals can include unreimbursed qualified long-term care expenses as medical expenses, and within certain limits, premiums they pay for qualified long-term care insurance.



Department of the Treasury
Internal Revenue Service

Publication 535
Cat. No. 15065Z

Business Expenses

For use in preparing
2004 Returns

Get forms and other information faster and easier by:
Internet • www.irs.gov
FAX • 703–368–9694 (from your fax machine)

Contents

Introduction

This publication discusses common business expenses and explains what is and is not deductible. The general rules for deducting business expenses are discussed in the opening chapter. The chapters that follow cover specific expenses and list other publications and forms you may need.

Comments and suggestions. We welcome your comments about this publication and your suggestions for future editions.

You can write to us at the following address:

Internal Revenue Service
Business Forms and Publications Branch
SE:W:CAR:MP:T:B
1111 Constitution Ave. NW, IR 6406
Washington, DC 20224

We respond to many letters by telephone. Therefore, it would be helpful if you would include your daytime phone number, including the area code, in your correspondence.

You can email us at *taxforms@irs.gov. (The asterisk must be included in the address.) Please put "Publications Comment" on the subject line. Although we cannot respond individually to each email, we do appreciate your

Employers should consult their own tax and legal advisors.

Two key mission topics explored

- Within limitations, the owner can determine who will receive a company paid benefit. The Internal Revenue Code appears to allow Executive Carve-out Long-Term Care insurance coverage.
- The use of an optional return of premium rider which allows any premiums not paid out in benefits be returned to heirs upon the insured's death These dollars could create a taxable event to the recipient under current rules.

TQ LTCI Policy Benefits - Taxation

- TQ LTCI benefits received on a reimbursement basis are generally tax-free
- TQ LTCI benefits received on a per diem (indemnity/cash) basis in excess of actual QLTC expenses incurred and/or annual IRC per diem limitation, less reimbursements from all sources including Medicare, may be taxable

Source: IRC Sec. 7702B(a)(2), 104(a)(3) and 105(b)

C-Corporation Tax Considerations

- Premiums are 100% Tax Deductible for corporate tax purposes*
- Premiums paid are generally tax-free for the individual

*Accident and health insurance premiums paid by an employer for employees and certain dependents are generally currently deductible, Limitations on the amount of the deduction may be imposed under the tax law. Employers should consult their own independent tax and legal advisors.

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Non C-Corporations

- Qualified LTC insurance premiums paid by businesses on behalf of self-employed individuals, partners, owners of more than 2% of the stock of an S-Corporation, or Limited Liability Company members (owners) treated as health insurance costs.*
- For Partnerships and owners of more than 2% of the stock of an S-Corporation, or Limited Liability Company members (owners), the partnership or corporation will generally deduct the premiums paid.*

*** This is subject to certain limitations under IRC §162(l). Employers should consult their own** independent **tax and legal advisors.**

Non C-Corporations

- For self-employed individuals, premiums paid are included in his/her gross income with a deduction as stated below (without regard to the 7.5% AGI threshold).*
- Partners with net earnings for self-employment and more than 2% shareholder in an S-Corporation are generally treated as self-employed individuals for this purpose.*
- In 2003, the deduction for health insurance costs, including the "eligible LTC insurance premium" was increased to 100%.*

*** This is subject to certain limitations under IRC §162(l). The self-employed, partnership, S-Corp and LLC rules are complex and fact intensive, these rules do not apply to all circumstances. Employers should consult their own** independent **tax and legal advisors.**

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Tax Deductions for Non C-Corporations Owners/Spouses Premium

Age of Policyholder at Close of Tax Year	2007 Eligible Premium
40 or less	$290
41-50	$550
51-60	$1,110
61-70	$2,950
71 and over	$3,680

Employers should consult their own independent tax and legal advisors .

What the Code Says*:

IRC §7702B(a)(1)

"A qualified long term care insurance contract shall be treated as an accident and health insurance contract."

* Employers should consult their own independent tax and legal advisors.

“Return of Premium”*

§7702B(b)(2)(C)

“(2) SPECIAL RULES.-
“(C) REFUNDS OF PREMIUM.- Paragraph (1)(E) shall not apply to any refund on the death of the insured, or on a complete surrender or cancellation of the contract, which cannot exceed the aggregate premiums paid under the contract. Any refund on a complete surrender or cancellation of the contract shall be included in gross income to the extent that any deduction or exclusion was allowable with respect to the premiums.”

* Employers should consult their own independent tax and legal advisors.

“Tax Free Daily Benefits”

IRC §7702B(d)(4)&(5)

“(4) DOLLAR AMOUNT - The dollar amount in effect under this subsection shall be $175 per day (or the equivalent amount in the case of payments on another periodic basis.)”
“(5) INFLATION ADJUSTMENT - In the case of a calendar year after 1997, the dollar amount contained in paragraph (4) shall be increased at the same time and in the same manner as amounts are increased pursuant to section 213(d)(10).”

(NOTE: Year 2007 per diem limitations is $260 per day)

Employers should consult their own independent tax and legal advisors .

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"Executive Carve-outs and Tax Qualification"

IRC §105(h)

- IRC §105(h) requires that ***self-insured*** plans comply with rigorous discrimination testing.

- ***Fully insured*** plans do not fall within IRC §105(h), therefore:
  - the employer is not subject to these discrimination rules under the Code, and
  - the employer can provide an executive carve-out plan.

Let’s sum it all up:

- The need to plan for long-term care is a critical one for individuals and business owners
- Businesses can be impacted by long-term care by depleting assets and/or losing key team members.
- Current law can make the purchase of LTCI, paid with corporate funds, attractive.
- Corporate-purchased LTCI is a valuable business tool for multiple reasons.
- By its actions including legislation and tax code, the government is encouraging individuals and businesses to plan now for a possible eventual LTC event.

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The MetLife Multi-Life Discount LTC Program

- By expanding your corporate-paid plan to key executives you can help yourself in several ways
- MetLife gives discounts for three or more employer sponsored individuals
- MetLife offers modified underwriting on three or more covered lives
- There are other reasons why covering key executives will help your business……..

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Is Maximizing Productivity Important?

- Why extend Long-Term Care Insurance coverage to your key executives and their spouses?
  - 56% said they were less productive at work in care giving situations*
  - 51% had to take time off during the work day*
  - 30% reported being absent for a least a full day*
  - 10% had to give up work entirely*
  - Companies lose billions in productivity annually*

*Center for Medicare & Medicaid Services (CMS), “When Employees Become Caregivers: A Manager's Workbook,” December, 2002

The Recruiting and Retention Solution

- Executive Benefit Packages are a Valuable Way to Recruit and Retain Key Employees
  - Long-Term Care Insurance
    - A key essential benefit
    - A requested component of a compensation package
    - Augments your existing benefits for executives and spouses

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Employees - Adversely Affected When Providing Care for a Loved One

- The aging of America's workforce will have an impact on your business.
- For the aging workforce, child care needs are being replaced with elder care issues.
- Employees are leaving work or taking time off to take care of an elderly family member.[1]

[1]AARP, In the Middle: A Report on Multicultural Boomers Coping with Family and Aging Issues, July 2001.

Lost Productivity = Lost $$

<u>$11.5 - $29 Billion</u>

in productivity costs lost per year

Source: Center for Medicare & Medicaid Services (CMS), “When Employees Become Caregivers: A Manager's Workbook,” December, 2002

Employees with Long-Term Care Insurance

- Helps protect against future job disruptions
- Less “Social Stress”
- Work status has no effect on perceived quality of care
- Caregiver nearly twice as likely to continue working
- More “quality time”/less hands-on assistance

Source: *MetLife Study of Employed Caregivers: Does Long-Term Care Insurance Make a Difference?* 2001

Long-Term Care and Your Firm's Productivity

The presence of Long-Term Care Insurance can result in

Greater Productivity

from your key executives when loved ones need LTC services

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Benefits for the…

Employee	Employer
Provides One of the Most Desired Benefits	Flexibility to Select Classes of Executives
Premiums Paid by Business Do Not Count as Income to Employee	Can Include Owner-employees, Spouses and Certain Other Family Members
Benefits are Generally Tax Free	100% Tax Deduction on Premiums Paid by Business for employees and their spouses

How the MetLife ExecutiveCare Program Works

- Employer Selects Key Class of Executives
  - Agrees to pay premiums
  - Executives own the policy
- Employer Pays Premiums Directly to Insurance Company (example:Ten-Year Premium Payment Rider)
- Employee is Responsible for Premium if Employer Ceases Payment

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MetLife Long-Term Care Insurance policies are guaranteed renewable. This means that once a policy is issued, it cannot be cancelled due to an increase in your age or a change in your health. Premium rates can only be raised as the result of a rate increase made on a class-wide basis in the state where the policy is issued and approved by the Department of Insurance.

Like most Long-Term Care Insurance policies, MetLife’s policies contain certain exclusions, limitations, elimination periods, reductions of benefits and terms for keeping them in-force. For complete costs and details, please contact your MetLife Representative/Insurance Agent/Producer.

Long-Term Care Insurance is issued and distributed by MetLife, 200 Park Avenue, New York, NY 10166 and also distributed by MetLife Investors Distribution Company, 5 Park Plaza, Suite 1900, Irvine, CA 92614.

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