Statement of the Maryland Federation of National Active and Retired Federal Employees

On Senate Bill 786,

Income Tax – Credit for Long Term Care Premiums

Good Afternoon, Chairman Guzzone and Members of the Budget and Taxation Committee. My name is Robert Doyle and I am the Vice-Chair of the State Legislation Committee of the Maryland Federation of NARFE, the National Active and Retired Federal Employees Association. The mission of NARFE is to promote the general welfare of current and potential Federal annuitants by advising them with respect to their rights under retirement laws and regulations. We represent approximately 300,000 Federal employees and annuitants living in Maryland.

For many years, the NARFE SLC has advocated for legislation in Maryland which would foster the purchase of long term care insurance by Maryland consumers. For the benefit of all Maryland taxpayers, NARFE supports Senate Bill 786, Income Tax – Credit for Long Term Care Insurance.

What SB 786 Will Do

Under current Maryland law, a taxpayer can take a one-time only credit against the State income tax for 100% of your eligible LTC insurance premiums to a maximum of $500. SB 786 will allow LTC insurance holders to take a annual tax credit – in tax years 2021 and 2022, the credit will be $250, and from tax year 2023 and beyond the annual tax credit will be $500. But this will be effective prospectively – it will apply only to LTC policies issued after December 31, 2020. Although LTC insurance can be purchased by anyone at any age, generally LTC will cost less when you are younger. SB 786 is expressly designed to not only encourage Maryland taxpayers to obtain LTC insurance earlier in life when the cost is lower, but also to retain the insurance by having an continuing annual tax credit.

LTC Insurance Tax Credits under Federal and Maryland Law

Tax credits for LTC insurance have been in place since 1996 for Federal tax returns. Federal law treats LTC premiums as deductible unreimbursed medical expenses, but only if an individual's unreimbursed medical expenses exceed 10% of the individual's Federal adjusted gross income.

LTC premiums may also qualify for pretax reimbursement plans such as Health Savings Accounts.

In Maryland, since 2000 Maryland law has provided for the one-time $500 tax credit described above for taxpayers. In addition, since 1998, any employer, including organizations exempt from taxation under §501(c)(3) or (4) of the Internal Revenue Code, that provides long-term care insurance as part of an employee benefit package may claim a credit for costs incurred during the taxable year. The credit may be taken against corporate income tax, personal income tax, insurance premiums tax or public service company franchise tax. The same credit may not, however, be applied to more than one tax type.

Sole proprietorships, corporations and pass-through entities, such as partnerships, subchapter S corporations, limited liability companies and business trusts may claim the tax credit. The credit allowed is 5% of the employer's cost which may not exceed the lesser of $5,000, or $100 for each employee in the State covered by long-term care insurance provided under the employee benefits package. If the credit is more than the tax liability, the unused credit may be carried forward for the next five (5) tax years.

The Importance of LTC Insurance

As all members of this Committee, are well aware, statistics show that Maryland faces an aging population of Baby Boomers – by 2030, 25% of Maryland residents will be 60 years old or older. Figures from the Federal Department of Health and Human Services show that over ½ of all persons 65 years old and older will need substantial amounts of Long Term Care at some point in their lives, and about 15% of these senior will need 5 or more years of Long Term Care. The costs of Long Term Care are high -- ranging from around $50,000 a year for home health aides to well over $100,000 for nursing home care.

So Maryland taxpayers are faced with the question of how to prepare for the event that they will need long term care, and they may think that Medicare or Medicaid will help. This is generally not the case. Medicare's coverage of nursing home care is quite limited. Medicare covers only up to 100 days of "skilled nursing care" per illness. To qualify, you must enter a Medicare-approved "skilled nursing facility" or nursing home within 30 days of a hospital stay that lasted at least three days. The care in the nursing home must be for the same condition as the hospital stay.

Regarding Medicaid, middle class families generally cannot qualify. Medicaid helps needy individuals pay for long-term care, but you do not need to be completely destitute to qualify. While in general a Medicaid applicant can have no more than $2,000 in assets in order to qualify, this figure is higher in some states and there are many assets that don't count toward this limit. For example, the applicant's home will not be considered a countable asset for eligibility purposes to the extent the equity in the home is less than $585,000, with the states having the option of raising this limit to $878,000 (in 2019). In all states, the house may be kept with no equity limit if the Medicaid applicant's spouse or another dependent relative lives there. In addition the spouse of a nursing home resident may keep one half of the couple's joint assets up to $126,420 (in 2019). But other assets may be subject to what is called a Medicaid spend-down which can be quite complicated and usually needs the work of an experienced attorney to accomplish.

In light of all this, long term care insurance can be a good choice. We suggest that the new continuing tax credit can be a good incentive for taxpayers considering whether and when to buy LTC insurance. The passage and enactment of this bill will be a good complement to another current effort for which this Legislature is responsible – the Governor's Task Force on Long Term Care Education and Planning.

The Task Force came from the passage of HB 953 in the 2017 session. The law commissioned the Task Force to make recommendations to improve efforts to educate Marylanders about planning for Long Term Care with the goal that:

"no Maryland resident turns 50 years old without receiving complete information about the risk of needing Long Term Care and the private options available to pay for long term care…"

The Task Force issued its final report on October 20, 2018 including numerous recommendations for LTC education and planning, such as:

* including LTC planning as part of secondary school financial literacy courses;
- increasing LTC education by private and public employers in the state and
- revamping and streamlining applicable Maryland state agency websites with current and comprehensive LTC planning information.

As efforts are in place to implement these recommendations, it would be good for Maryland residents to read and learn about the new continuing annual $500 LTC insurance tax credit which I hope you will pass.

In preparing my remarks to you today, I looked on the Maryland General Assembly website at all of the hearings on the site on the prior versions of this bill – both Senate and House – going back to 2010. In some earlier years, this bill had multiple sponsors – yet failed to make it out of committee. The Fiscal Notes for these earlier bills of course showed a decrease in revenue from expected use of the tax credit, but it would ignore and never discuss the potential savings in state Medicaid spending from people using LTC insurance instead of Medicaid. The Fiscal Note for this SB 786 is no different.

I hope you will see this bill as a win-win for both taxpayers and the state and give a favorable report for SB 786.

Thank you.

****