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**NATIONAL ACTIVE AND RETIRED FEDERAL EMPLOYEES**  
**MARYLAND FEDERATION**

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

**Before the Maryland House Ways & Means Committee, March 3,  
2022**

**On House Bill 1237,**

**Income Tax – Credit for Long Term Care Premiums**

Good Afternoon, Chairwoman Atterbeary and Members of the Ways and Means Committee.

My name is Robert Doyle and I am the Vice-Chair of the State Legislative 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 (LTC) insurance by Maryland consumers. For the benefit of all Maryland taxpayers, NARFE supports House Bill 12327, Income Tax – Credit for Long Term Care Insurance. We appreciate the efforts of Delegate Seth Howard who has pushed LTC premiums tax credit legislation for several years,

### **What HB 1237 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. HB 1237 will allow LTC insurance holders to take an annual tax credit – in tax years 2023 and 2024, the credit will be \$250, and from tax year 2025 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, 2024. Although LTC insurance can be purchased by anyone at any age, generally LTC will cost less when you are younger. HB 1237 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 a 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. From 2015 to 2030, Maryland 60-plus age population is expected to increase by 40%, from 1.2 million to 1.7 million older adults.

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. The annual median costs of LTC care in Maryland range between \$54,912 and \$122,275 depending on the services needed.

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 \$636,000 (the limit in Maryland for 2022). 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 \$37,400 (the MD limit for 2022).<sup>1</sup> 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

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<sup>1</sup> Maryland Medicaid Eligibility for LTC: Income and Asset Limits at <https://www.medicaidplanningassistance.org/medicaid-eligibility-maryland/>

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;
- increased 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.

In the 2021 General Assembly Regular Session, you passed HB 599 and SB 652, bills entitled “Public Health – Long Term Care Planning,” which required the MD Department of Health to develop and publish materials to assist MD residents with LTC planning, consistent with the Task Force recommendations. Additionally, three Agencies – the MD Health Care Commission, the MD Department of Disabilities and the MD Department of Aging – were directed to update their websites with LTC planning information consistent with recommendations of the Task Force. These bills were signed by the Governor and enacted into law, and the work I just described was to be completed by or before April 1, 2022.

To complement efforts such as these, 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.

This bill from Delegate Howard on LTC tax credits is not original this year and in fact has been introduced for several years. Other LTC tax credit bills have been introduced going back many years. In some earlier years, this bill had dozens of 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 HB 1237 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 HB 1237.

Thank you.

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