Manulife Financial

For your future™

Understanding Taxation of Long Term Care Insurance

Personally-owned policy

Purpose of Insurance	Structure	Tax Treatment	Planning Points
■ To provide a monthly cash benefit to the person insured under the contract in the event he/she is: – functionally dependent and – satisfies the waiting period. ■ The benefit can provide financial flexibility so the individual can be cared for in the manner desired by them. Needs may include: – care costs or medical expenses not covered under government plans – payments on mortgage debt, credit card debt or personal lines of credit – home renovations required to make living space suitable – replacing caregiver's (e.g., spouse) lost income	■ The insured person would generally: – own the policy – pay the premium, and – receive all benefits under the contract.	■ Premium is a non-deductible personal living expense. Because the plan does not qualify as a private health services plan (PHSP) under the Income Tax Act, the premium does not qualify as a medical expense. To qualify as a PHSP the CRA states that the plan must be a reimbursement policy and may not cover any expenses that do not qualify as medical expenses. ■ Cash benefits and Return of Premium on Death benefits are non-taxable* ■ Return of Premium on Death Benefits received by the owner's estate are subject to probate taxes (depending upon the owner's province of residence). ■ Qualifying medical expenses will still be eligible for the non-refundable medical expense tax credit even where the monthly cash benefit has been used to pay them.	■ As it is possible that the person insured on a long term care insurance policy may not be in a state to manage his or her financial affairs at the time the monthly cash benefit is payable, having a Power of Attorney in place is advisable. ■ Ownership of a policy may be by a third party (for example, a child on a parent). In this case the benefit will be paid to the insured person unless the owner directs otherwise. (In certain provinces, this may be done by naming a beneficiary other than the insured person.) This ownership structure may be considered as an alternative to personal ownership by the insured person and having a Power of Attorney in place to deal with benefits payable under the policy. A Direction to Pay is simply a written request from the third party policy owner to the insurer, asking the insurer to pay the benefit to someone other than the insured person. – Unlike a Beneficiary Designation, a Direction to Pay does not provide creditor protection. – A Direction to Pay can be used for the benefits from a Return of Premium on Death Rider only if the insured person is NOT the policy owner. – Caution should be used in making a Direction to Pay or Beneficiary Designation (in provinces that permit this) to someone other than the insured person. The directee/beneficiary will receive the monthly cash benefit under the policy even though the insured person is functionally dependent and may be incurring the associated care costs.

*Provided the policy is accident and sickness insurance.

The CRA has confirmed that it views critical illness insurance policies providing no Return of Premium benefits as accident and sickness insurance. It has not confirmed this view for policies containing Return of Premium on death benefits outside Quebec. Like critical illness insurance, the taxation of long term care insurance is not black and white. It is Manulife's view that LivingCare with Return of Premium on Death should be viewed as accident and sickness insurance.

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