Equitable Financial Life Insurance Company Equitable Financial Life Insurance Company of America

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Planning perspective

Understanding the taxation of my benefits

Comprehensive Long-Term Care Rider with my life insurance policy

The Comprehensive Long-Term Care Rider, an accelerated death benefit, is designed to provide an acceleration of a portion of the life insurance policy's death benefit as a monthly benefit for chronically ill insured persons who are receiving qualified long-term care services in accordance with a plan of care. The long-term care benefit is paid each month as an acceleration of the underlying policy's death benefit. The benefit will be paid as a lien against the policy values and is a percentage of the death benefit you choose at the time of the application. For an insured to be eligible to access their long-term care benefits, a U.S.-licensed healthcare practitioner must certify in writing that the insured is chronically ill and is receiving qualified long-term care services in accordance with a plan of care. An elimination period as defined in the rider must be satisfied. An individual who is chronically ill is someone who either (a) is unable to perform at least two activities of daily living (ADLs) or (b) requires substantial supervision to protect themselves from threats to health and safety due to cognitive impairment. ADLs include: eating, bathing, dressing and toileting without substantial assistance and continence. To receive payment, you must submit evidence of long-term care services received.

Taxation of Comprehensive Long-Term Care Rider benefit payments

Receipt of the accelerated benefits may be taxable; therefore, you should seek assistance from a tax advisor.

This *Planning Perspective* is designed to provide a general outline of certain federal tax considerations concerning this rider and is broken down into two categories:

- Taxation of Comprehensive Long-Term Care Rider benefit payments.
- Tax effects of Comprehensive Long-Term Care Rider charges.

What are the tax consequences when benefits are paid under the Comprehensive Long-Term Care Rider?

The Comprehensive Long-Term Care Rider benefit amounts received under your life insurance policy are intended to be treated for federal income tax purposes as accelerated death benefits under Section 7702B of the Internal Revenue Code (the Code). The Code provides special tax treatments for such payments on the life of a chronically ill insured person receiving qualified long-term care services within the meaning of Section 7702B of the Code. For income tax purposes, payment of benefits will be reported to you on Form 1099-LTC. You must then file Form 8853 to determine the amounts to be included or excluded from income for the applicable taxable year.

Income exclusions

Generally, the income exclusion limit for all long-term care-type benefit payments from all sources with respect to an insured person will be limited to the higher of:

- The Health Insurance Portability and Accountability Act (HIPAA) per diem limit (for 2025, the limit is $420 a day, which is a limit that may be adjusted annually for inflation); or
- The actual costs incurred for qualified long-term care services by the taxpayer (policyowner) on behalf of the insured person.

If there is more than one policy on the insured, receipt of benefit payments must be aggregated to determine taxability. To the extent aggregate benefits for an insured received by all owners from all sources exceed the tax law limits, the excess benefit amount will be taxable as ordinary income to the recipient.

Income exclusion under this rule applies even if your life insurance policy is considered to be a Modified Endowment Contract (MEC) under the tax law.

Policy ownership considerations

The ownership structure of the life insurance policy with a Comprehensive Long-Term Care Rider can affect how the benefits are taxed under various tax provisions (i.e., income tax, gift tax, estate tax). Therefore, careful consideration should be given to all situations where the owner and insured are not the same person. If the business needs the death benefit and long-term benefit protection, then ownership by the business makes sense. If the plan is to provide a benefit to the insured employee or their family, a payment from the business may be considered taxable income. In that instance, it may make sense for the business to structure the plan with policy and LTCSR ownership held by the employee/executive, their family or trust.

The policyowner is the insured

Comprehensive Long-Term Care Rider benefit payments, made to the policyowner who is the insured to cover qualified long-term care services are intended to qualify for exclusion from income subject to the dollar limits described above, with respect to a particular insured person (see Tax Rules for Multiple Policies).

The policyowner is an individual other than the insured

For income tax purposes, the benefit payments made to an individual policyowner who is not the insured are treated the same as if the policyowner is the insured. However, there are also other tax considerations.

For example: If a taxpayer's son owns a policy and the insured person is his father, there may be gift tax considerations if the son provides the funds to his father when the benefits are paid. However, special gift tax rules may provide gift tax exemptive relief when the taxpayer directly pays the provider of medical care on behalf of an insured person.

The policyowner is a trust

In an estate planning scenario, an insured taxpayer may set up an Irrevocable Life Insurance Trust (ILIT) as the owner of a life insurance policy to avoid including the life insurance death benefit proceeds in the insured's taxable estate.

In this situation, the trust, as the owner of the policy, will be entitled to any applicable benefits under the Comprehensive Long-Term Care Rider. If the insured qualifies for monthly benefits under the Comprehensive Long-Term Care Rider, the trust policyowner, with the advice of his or her tax and legal advisors, will need to plan to ensure that there are no unintended consequences, such as the unavailability of funds to the insured or the availability of funds at the cost of defeating the estate planning for which the trust was created.

Generally, the retention of any incident of ownership in a life insurance policy by an insured or the retention of a life interest in property contributed to a trust will each cause the policy's death benefit proceeds to be included in the insured's estate.

If the insured has other long-term care coverage outside the ILIT, a benefit received by the ILIT might create taxable income for the ILIT if aggregate exclusion limits are exceeded.

The policyowner is a trade or business

As noted above, a business-owned policy can provide protection against the loss of a key person or help facilitate a business continuation plan. Where the business is the planned beneficiary, it generally makes sense to have the policy owned by the business. An indemnity-style contract, such as Equitable's Section 7702B LTCSR, can allow benefits to be received directly by the business, and most likely income tax-free, even where it is not incurring the long-term care expenses. A business does want to be certain it is compliant with the Employer-Owned Life Insurance (EOLI) rules to assure the death benefit and long-term care accelerated death benefit are received income tax-free.

By contrast, if the owner and the insured person are not the same, the exclusion for accelerated death benefits for a Section 101(g) chronic illness does not apply if the owner (taxpayer) has an insurable interest with respect to the life of the insured person, by reason of the insured person being an officer, employee or director of the taxpayer, or by reason of the insured person being financially interested in any trade or business carried on by the taxpayer. It is not clear whether or not this is the case for a qualified long-term care benefit under Section 7702B of the Code.

Tax rules for multiple policies

The federal income tax rules apply the limitation on the exclusion of benefits on an aggregate basis for all payments received from all sources with respect to an insured person, whether owned by the same person or not. This includes benefits from both long-term care insurance and accelerated death benefits for chronic illness. Each payer of benefits is required to report such payments for federal income tax purposes on Form 1099-LTC. For your own particular situation, if you receive benefits under your policy, you must calculate the portion of benefits, if any, that must be included in income (refer to IRS Form 8853 and Instructions for Form 8853).

To help illustrate this concept further, let's take a look at an example of multiple policies owned by a daughter and mother.

- A daughter receives $70,400 in benefits in a taxable year on a policy she owns on the life of the insured, her mother.
- Her mother receives $90,600 in benefits under a separate policy that she owns on herself. The total benefits on the life of the mother, as the insured, would be $161,000. (The daughter did not apply any amounts toward the cost of her mother's care.) This example assumes the per diem limit applied as opposed to actual expenses incurred limit, which could provide different results.
- Now assume the maximum excludable amount for such year happens to be $151,200 (2025 HIPAA limit per day $420 x 30 days x 12 months), based on the per diem limit being higher than qualifying costs incurred for services, all of which were incurred by the mother.
    - In this case, the mother could exclude all $90,600, since the amount received was under the $151,200 HIPAA limit, and her daughter would exclude $60,600, since there would still be $60,600 remaining of the $151,200 limit after the mother's $90,600 exclusion. The remaining $9,800 received by her daughter is not excluded, since aggregate benefits of $161,000 exceeded the applicable federal income limitation of $151,200 for such year.

Under IRS Instructions to Form 8853, the per diem limitation on benefits is first allocated to the insured to the extent of the total payments the insured received. For joint returns, the allocation is first made to the insured and spouse for payments they both received. Any remaining applicable per diem limit is allocated pro rata among other policyholders based on the payments they received in the taxable year.

The current applicable per diem limit actual costs incurred, and any necessary allocation for multiple policies, will therefore have to be determined annually to calculate excludable amounts for all recipients of benefits.

Other considerations

The illustration for your life insurance policy will contain certain federal tax considerations for the basic life insurance policy and will also provide information on any riders illustrated.

This **Planning Perspective** does not discuss tax considerations for a separate stand-alone policy that provides only long-term care benefits. You should carefully review the basic operation of the Comprehensive Long-Term Care Rider and the possible advantages or disadvantages of the rider compared to a stand-alone long-term care policy with or without a separate life insurance policy.

This information is based on our general understanding of current federal income tax rules. Be advised that this document is not intended as legal or tax advice. In addition, U.S. Treasury regulations require us to inform you that "any tax information provided in this document is not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer. The tax information was written to support the promotion or marketing of the transaction(s) or matter(s) addressed, and you should seek advice, based on your particular circumstances, from an independent tax advisor."

State and local income tax rules may provide for different tax treatment of benefits or the deductibility of charges for benefits. You should consult your tax advisor as to your specific situation.

Other important circumstances to consider

Adjustment to tax limits on your policy

Any adjustments made to the policy death benefit, face amount and other values as a result of the Comprehensive Long-Term Care Rider benefits paid will also generally cause adjustments to the tax limits that apply to your policy. For example, for guideline premium-tested policies, the guideline premiums will be adjusted. In addition, the seven-pay period and seven-pay premium for testing Modified Endowment Contract (MEC) status may also be impacted.

Split-dollar agreement

For policies intended to be used in a split-dollar agreement, many additional tax issues may arise for which there is little federal income tax guidance. These issues may include, but are not necessarily limited to, the taxation of any economic benefit arising out of the Comprehensive Long-Term Care Rider, an employer's right to a policy's cash value versus the pro rata reduction of cash values through the acceleration of a portion of the policy's death benefit, and the application of the rules for business-related policies.

What are the tax consequences when the charges for the Comprehensive Long-Term Care Rider are deducted from the life insurance policy account?

The rider is intended to be a qualified long-term care insurance contract under section 7702B of the Internal Revenue Code. As such, the qualified Comprehensive Long-Term Care Rider monthly charges reduce the policyowner's investment in the life insurance policy, but not below zero. We are required to report such charges to the IRS each year on Form 1099R, but such amounts are not considered distributions and are not taxable. Your premium in the contract (your policy) is used to determine the amount of gain that may be present in your policy for purposes of determining the income tax consequences of a distribution or upon the surrender or termination of your policy. Your premium in the contract does not impact the income tax treatment of your policy's death benefit or any Comprehensive Long-Term Care Rider benefits.

Charges for the Comprehensive Long-Term Care Rider are generally not considered deductible for income tax purposes.

For more information, contact your financial professional or visit equitable.com.

Limitations and exclusions:

(a) Preexisting conditions. The rider does not cover conditions for which the insured person received medical advice or treatment from a person who, or facility which, provides healthcare services (or a condition for which treatment was recommended to the insured person by a healthcare provider) within 6 months preceding the effective date of the rider. No benefits will be provided under the rider during the first 6 months for qualified long-term care services received by the insured person due to a preexisting condition. Days of service received by, or recommended to, the insured person for a preexisting condition during the first 6 months that the rider is inforce will not be counted toward the satisfaction of the elimination period.

(b) Exclusions, exceptions and limitations. The rider does not cover services provided by a facility or an agency that does not meet the rider definition of such facility or agency. The rider does not cover care or treatment:

- due to attempted suicide or intentionally self-inflicted injuries;
- due to alcoholism or drug abuse (unless drug abuse was a direct result of the administration of drugs as part of treatment by a physician);
- due to war (declared or undeclared) or any act of war, or service in any of the armed forces or auxiliary units;
- due to committing or attempting to commit or participating in a felony, riot or insurrection;
- received outside the United States unless the initial and any annual renewal certifications are completed by a licensed healthcare practitioner licensed in the United States. For purposes of this exclusion, United States shall mean the 50 states, District of Columbia, Puerto Rico and the U.S. Virgin Islands;
- provided by someone who is a member of your or the insured person's immediate family.

This rider may not cover all the expenses associated with the insured's long-term care needs. If your policy is subject to a loan, a portion of the monthly benefit payment will be applied to repay a portion of the outstanding policy loan.

The purpose of this method of marketing is solicitation of insurance and contact may be made by an insurance agent, producer, insurance company or insurance agency.

Actual terms and conditions of the Comprehensive Long-Term Care Rider are contained in rider form #R12-10CA. This rider has exclusions and limitations under which the rider may be continued inforce or discontinued. For more information, costs and complete details of coverage, contact your life and health insurance licensed financial professional or the company. For an additional charge the rider may be available with a nonforfeiture benefit. Chronically Ill person is defined as a person who has been certified by a U.S.-licensed healthcare practitioner as being unable to perform (without substantial assistance) at least two activities of daily living for a period of at least 90 days due to a loss of functional capacity, or requiring substantial supervision to protect the person from threats to health and safety due to cognitive impairment. An elimination period must be satisfied. As defined in the rider, the Elimination Period of 90 days begins on the first day of any Qualified Long-Term Care Services that are provided to the insured person. Each day of care or service will be counted towards the Elimination Period, whether or not continuous within a consecutive period of 24 months. ADLs include: eating, bathing, dressing and toileting without substantial assistance and continence.

The product brochure for the applicable life insurance policy must accompany this Comprehensive Long-Term Care Rider Planning Perspective and the Comprehensive Long-Term Care Rider brochure.

Life insurance products are issued by Equitable Financial Life Insurance Company (NY, NY) or affiliate Equitable Financial Life Insurance Company of America, an AZ stock company with an administrative office located in Charlotte, NC, and are co-distributed by affiliates Equitable Network, LLC (Equitable Network Insurance Agency of California, LLC; Equitable Network Insurance Agency of Utah, LLC; Equitable Network of Puerto Rico, Inc.) and Equitable Distributors, LLC. All companies are affiliated and directly or indirectly owned by Equitable Holdings, Inc., and do not provide tax or legal advice. You should consult with your tax and legal advisors regarding your particular circumstances.

For complete details regarding rider costs of coverage, call your financial professional.

The rider is intended to be federally tax-qualified.

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Life Insurance: • Is Not a Deposit of Any Bank • Is Not FDIC Insured • Is Not Insured by Any Federal Government Agency • Is Not Guaranteed by Any Bank or Savings Association • Variable Life Insurance May Go Down in Value

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