



*A financial advisory practice of Ameriprise Financial Services, LLC*

## **Answers to common taxes and insurance questions**

This article was provided by Ameriprise Financial, a longstanding leader in advice and financial planning.

Whether you will owe taxes on disability, life, long-term care or health insurance benefits depends in part on the type of policy you have and could also depend on whether premiums were paid with pre- or post-tax dollars.

Careful planning, to account for tax rules and potential implications, can help decrease the overall impact of taxes on your benefits. Additionally, a financial advisor at S&T Financial Services, a financial advisory practice of Ameriprise Financial Services, LLC, will work with you and your tax professional to help determine tax implications based on your insurance status.

**Here are answers to commonly asked questions about income taxes, private insurance options and federal programs:**

### **Disability insurance and taxes questions**

Is disability income taxable?

If you become disabled and you begin receiving benefits payments, taxes on disability income depend on the type of disability insurance and whether premiums for that plan were paid with pre- or post-tax dollars.

- **You may not owe taxes** on the benefits you receive if you have an individual disability insurance plan and are not part of an employer-sponsored plan. This is because under an individual plan, the premiums are likely paid with your post-tax dollars.
- **You will likely owe taxes** on disability income if you pay insurance premiums using pre-tax money or your employer pays them for you.

### **What are the different types of disability insurance?**

To determine your tax status, consider the type of disability insurance you receive. There are four basic types:

- Employer-sponsored plans
- Individual plans
- Social Security disability
- VA disability compensation

Employer-sponsored plans: How are benefits of employer-sponsored plans taxed?

- **Your employer pays the premiums:** You owe taxes on the income you receive.
- **You pay the premiums with after-tax dollars:** You do not owe taxes on the income.
- **You and your employer split the cost of premiums:** When you receive income, the portion attributed to the employer-paid share of the premiums is taxable; the share you paid with after-tax dollars is tax-free.

Individual plans: How are individual plans taxed?

Insurance companies provide options to supplement employer-sponsored group coverage with an individual disability income insurance policy. Benefits are typically paid tax-free because the premiums are paid using after-tax income.

Social Security disability: Is Social Security disability taxable?

If your income from other sources together with your Social Security benefits exceeds a certain IRS threshold, a portion of your Social Security disability benefits may be taxable. Some states also tax these benefits.

VA disability compensation: Is VA disability compensation taxable?

VA disability benefits are income tax-free.

### **Life insurance and taxes questions**

Are life insurance proceeds taxable?

The proceeds your beneficiaries collect — known as a death benefit — are generally income tax-free.

Are life insurance premiums tax deductible?

- Individuals cannot deduct life insurance premiums on their tax returns.
- The same is generally true for businesses. Businesses cannot deduct life insurance premiums except in certain limited situations.

Do you pay taxes on a life insurance cash out? What are the consequences of cashing in your life insurance?

When you use a cash-value life insurance policy for income, the tax impact depends on how cash value is accessed and how the policy is classified for tax purposes.

- **Withdrawal.** Unless you have a modified endowment contract (MEC), withdrawals up to your policy's investment in the contract are generally tax-free. Your investment is generally the total amount of money you have paid in premiums. Withdrawals beyond your investment are generally taxable.
- **Loan.** Amounts you borrow from a non-MEC policy are generally tax-free, though tax consequences can occur upon any surrender or lapse of the policy.
- **Surrender or sell.** When you surrender (i.e., cancel) a policy for cash, any gains you have accrued are taxed as income. In addition, a loan balance may be taxable. If you choose to sell your life insurance policy to someone else, you will not only lose the rights to the death benefit, but you may owe taxes as well.
- **MEC policies.** MEC policies are subject to less favorable tax rules for withdrawals and loans, as well as a potential 10% tax penalty for taxable amounts received prior to age 59 ½.

### **Long-term care insurance (LTCI) questions**

Are long-term care insurance benefits taxable?

The benefit you receive from a qualified LTCI contract is generally tax-free. Exceptions include when the benefit exceeds your medical expenses or when the benefit exceeds a certain daily limit if that's part of your LTCI contract.

What is a qualified long-term care insurance contract?

The IRS defines a qualified long-term care insurance contract as an insurance contract that provides only coverage of qualified long-term care services. In addition to a number of consumer protection provisions the contract must:

- Be guaranteed renewable.
- Not provide for a cash surrender value or other money that can be paid, assigned, pledged or borrowed.
- Limit use of refunds — other than refunds on the death of the insured or complete surrender or cancellation of the contract -- and dividends under the contract to only reduce future premiums or increase future benefits.
- Generally, not pay or reimburse expenses for services or items that would be reimbursed under Medicare, except where Medicare is a secondary payer, or the contract makes per diem or other periodic payments without regard to expenses.

Are long-term care insurance premiums deductible?

The amount of qualified LTCI premiums you can include in your itemized deductions as medical expenses is limited. In addition to the limits below, the overall adjusted gross income limit that applies to total medical expenses also applies.

Age	LTC Premium Deductible Limits (2024 tax year)
40 or younger	\$470
41-50	\$880
51-60	\$1,760
61-70	\$4,710
71+	\$5,880

### Health insurance and taxes questions

Are health care premiums tax deductible?

Whether your health insurance premiums are tax deductible is determined by the type of health insurance you have and how you pay for it.

- If you buy health insurance through your employer and pay your portion of the premiums with pre-tax dollars (as is the case with most employer health plans), you can't deduct it. You also can't deduct the employer-paid portion of the premiums.
- If you buy health insurance on your own with after-tax dollars, you may be able to deduct some of the premiums, depending on your tax situation.
- If you itemize deductions on your tax return rather than taking the standard deduction, you can claim unreimbursed medical and dental expenses as itemized deductions to the extent that they exceed a certain percentage of your adjusted gross income (7.5% of AGI in 2024). With private health insurance, your premium payments generally count toward these expenses, and therefore, could potentially be deductible.

Are health insurance benefits taxable?

Health insurance benefits that pay for medical expenses such as doctor visits, hospital stays and prescriptions are generally tax-free.

### **We're ready to help you**

Getting answers to your questions about insurance and taxes is an important part of your financial picture. Your financial advisor at S&T Financial Services, a financial advisory practice of Ameriprise Financial Services, LLC., provides you with personalized advice based on your goals and needs, and partners with your tax professional to help determine an appropriate approach to insurance.

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