HOUSE RESEARCH

Bill Summary

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Subject: Long-term care savings plan

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Overview

This bill establishes a long-term care savings plan. The plan would either be administered (1) by the commissioner of Minnesota Management and Budget (MMB) and the State Board of Investment (SBI) as a state trust account or (2) as deposit accounts with financial institutions that enter agreements with MMB. The latter would occur only if MMB does not receive an acceptable proposal from an administrator for the state trust style plan. Contributions to the plan would be tax deductible (up to $1,000 per year for single filers and $2,000 for married joint filers) and investment earnings exempt from Minnesota tax, if moneys in the account are used to either pay long-term care expenses or to buy long-term care insurance. (Federal tax would continue to apply.) If withdrawals are made for other purposes, both state income taxes and a 10 percent penalty applies.

Section

1 **Long-term care savings plan.** Establishes a tax exempt savings plan for long-term care expenses. Contributions to the plan would be tax deductible and investment earnings on accounts would be tax exempt (Minnesota-only, federal income taxes would continue to apply), if they are used to pay for long-term care insurance premiums or long-term care expenses. Amounts used for other purposes would be subject to both Minnesota income tax and a 10-percent penalty. A $200,000 contribution limit applies to each participant in the plan. This limit is indexed for inflation.

Subd. 1. Definitions. Defines the following terms:

Section

- **Long-term care expense** is either the cost of care in a facility (e.g., a nursing home) or in-home care, if the individual is unable to independently perform multiple basic life functions.
- **Long-term care insurance premiums** are premiums as defined under the Minnesota long-term care insurance tax credit. (The credit references the federal income tax definition used for the itemized deduction for medical care expenses.)
- **Participant** is an individual who has an account under the program (i.e., with either the administrator designated by MMB or a financial institution who has entered an agreement with MMB if no plan administrator is designated).
- **Qualified individual** is someone who during the taxable year (1) has incurred long-term care expenses or (2) is age 50 or older and has paid long-term care insurance premiums.

Subd. 2. Commissioner duties; participation agreement. Establishes the long-term care savings plan and directs MMB to select an administrator for the plan. If MMB does not receive an acceptable proposal for an administrator, the commissioner can instead enter agreements with financial institutions to provide deposit accounts under the program.

Subd. 4. Long-term care savings plan trust. Establishes the Minnesota long-term care savings trust plan, if MMB selects an administrator under subdivision 2 (rather than agreeing with financial institutions to run this as a deposit account program). MMB is the trustee of the plan and is responsible for plan administration. An investment officer is charged with making the investment decisions, including selecting investment options, approving fees, and so forth. These decisions are subject to direction and guidelines established by SBI. MMB and SBI are given rule making authority for the program and SBI can contract for investment management of the trust assets.

Subd. 4. Authorized withdrawals. Authorizes qualified individuals to make withdrawals from the plan either to pay long-term care expenses or to pay long-term care insurance premiums. A 10 percent penalty applies (to be collected by MMB) for withdrawals by someone who is not a qualified individual or for a purpose other than:

- transferring money to a spouse (presumably to the spouse's account within the program);
- paying long-term care expenses or insurance premiums; or
- paying expenses related to the death of a participant.

Effective date: Day following final enactment

2 **Non-qualified withdrawals.** Provides withdrawals from the plan that are not for a qualified purpose (same rules as outlined in section 1, subdivision 4) must be added to federal taxable income, subjecting them to Minnesota individual income taxation.

Effective date: Tax year 2015

Section

3 **Subtraction for contributions and investment earnings.** Provides a subtraction from federal taxable income for amounts contributed to the long-term care savings plan and investment earnings on amounts in the account. Annual contributions are limited to $1,000 (single and head of household filers) and $2,000 (married joint filers). This, along with the provisions of section 5, has the effect of making the contributions deductible in computing state income tax and exempts the investment earnings from taxation.

Effective date: Tax year 2015

4 **AMT exemption.** Exempts contributions to and investment earnings on long-term care savings accounts from Minnesota individual income taxation.

Effective date: Tax year 2015