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IRS guidance on provisions of the new tax law

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Since the Tax Cuts and Jobs Act (TCJA) was signed into law on December 22, 2017, the Internal Revenue Service (IRS) has been busy writing guidance on many of its provisions. Let's look at a few of the items that it has addressed.

Proposed regulations

Contributions in exchange for state or local tax credits.[1] If a taxpayer makes a charitable contribution under Code section 170 and receives a state or local tax credit in return, the credit is considered a return benefit and will reduce the charitable contribution deduction accordingly. Note, however, that a business taxpayer is generally permitted to deduct the entire payment to a charitable organization as an ordinary and necessary business expense under Code section 162 if the payment is made with a business purpose.[2]

Qualified income tax deductions for passthrough business owners.[3] Guidance was issued in August on Code section 199A that provides certain owners of passthrough entities a qualified business income deduction. At the same time, the IRS issued Notice 2018-64 describing how to calculate W-2 wages for the purpose of Code section 199A. The proposed regulations provide guidance on what businesses will be considered a specified service trade or business; when aggregation of businesses is permissible; and how to calculate the deduction for a taxpayer who has at least one business with a net loss, among many other details.

Bonus depreciation deduction under Code section 168(k).[4] TCJA increased the allowable first-year depreciation deduction for eligible property from 50% to 100% through 2022. In general, qualified property are assets with a depreciation recovery period of not more than 20 years, computer software, water utility property, qualified film/television/life theatrical production. The proposed regulations clarify the requirements for property to be eligible for this deduction. In addition, the proposed regulations clarify that the elimination of qualified leasehold improvement property, qualified retail improvements and qualified restaurant property under TCJA did not occur until January 1, 2018 (Congress changed the language to “qualified improvement property”). This means that so long as that qualified property was placed in service after September 27, 2017 and before December 31, 2017, it may be eligible for 100% bonus depreciation. Unfortunately, Congress erred by not assigning a 15-year life to qualified improvement property in TJCA; therefore, it has a life of 39 years and no bonus depreciation is available for qualified improvement property placed in service after December 31, 2017.[5]

Revenue procedures

Several revenue procedures were issued regarding accounting methods and changes in accounting methods.[6]

Notices

Guidance was issued on how to apply the changes to Code section 162(m) regarding covered employees of publicly-traded companies who are paid over $1 million in any tax year.[7] The Notice says that the definition of “covered employee” under the Code is not necessarily in line with the SEC rules on compensation disclosure in a proxy statement. The amended statue does not apply to a written binding contract that was in effect on November 2, 2017 and which is not modified after that date. The Notice describes what is meant by a written binding contract as well as what constitutes a modification. The guidance in the Notice will apply to any taxable year ending on and after September 10, 2018. Any future guidance that addresses the same issues as in the Notice will apply prospectively only.

Notice 2018-61 clarifies that certain expenses incurred by non-grantor trusts and estates are not affected by the suspension of miscellaneous itemized deductions from 2018 through 2025. According to the Notice, some commentators suggested that the suspension of those deductions meant that estates and non-grantor trusts would not be allowed to deduct certain costs that are paid in connection with the administration of the estate or trust. The Notice assures taxpayers that many deductions normally used by estates and trusts have not been taken away.

Notice 2018-28 provides guidance on complying with the new limit on the deductibility of business interest expense under Code section 163(j). The Code (as amended by TCJA) limits the taxpayer’s annual deduction for business interest expense to the sum of (1) the taxpayer’s business interest income; (2) 30% of the taxpayer’s adjusted taxable income; and (3) the taxpayer’s floor plan financing interest. This limit will not apply to businesses whose gross receipts are $25 million or less and to real property trades or businesses or to electing farming businesses.[8] Future regulations will address issues, such as: the ability (or inability) to carry forward business interest that could not be deducted in prior periods; and rules for the treatment of affiliated groups and consolidated groups, and many others.

2019 IRS cost-of-living adjustments

The IRS issued Notice 2018-83 on November 1, 2018 listing the new dollar limitations on benefits and contributions for retirement plans in 2019.

	2019	2018
Elective deferrals to a 401(k) plan	$19,000	$18,500
Catch-up contribution for age 50 and older to a 401(k) plan	$6,000	$6,000
Annual benefit under a defined benefit plan	$225,000	$220,000
Contribution to a defined contribution plan (annual limitation)	$56,000	$55,000
Annual compensation limit	$280,000	$275,000
Dollar limit for “key employee”	$180,000	$175,000
Definition of highly-compensated employee	$125,000	$120,000
Catch-up contribution for age 50 and over to a SIMPLE 401(k) and SIMPLE IRA	$3,000	$3,000
SEP compensation amount	$600	$600
Contribution to a SIMPLE IRA	$13,000	$12,500
Contribution to §457(b) plan	$19,000	$18,500
Deductible contribution to an IRA	$6,000	$5,500

HIPAA update for 2019

Good news for indemnity based LTC coverage

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The long-awaited news has finally been announced. The long-term care (LTC) HIPAA per diem for 2019 will be $370 per day.

We often see an update each year in October, but this year we were left holding our breath until mid-November when the IRS released Rev. Proc. 2018-57 establishing the HIPAA per diem rate for the year 2019. This rate is applied to calculate the tax-free benefit amount that can be received from traditional long-term care (LTC) policies, linked benefit LTC policies, LTC riders on life insurance and annuities, and chronic illness riders.

The reason for this year's particular concern was due to the passing of the Tax Cuts and Jobs Act (TCJA), which brought a change to how fixed dollar amounts such as the HIPAA per diem could be indexed for inflation. While TCJA brought tax relief to many, there were some potential tax consequences — believed by many to be unintended — that could have affected indemnity LTC benefits.

Premature and unnecessary panic was spread, leaving some advisors to wonder if indemnity policies would be able to maintain their previous advantages of flexibility if the HIPAA per diem were lowered based on the new C-CPI formula (often referred to as "chained CPI" or "chained inflation") introduced by TCJA. Fortunately, regulations also allowed for the Treasury Secretary, in consultation with the Secretary of Health and Human Services, to adjust the rate if deemed appropriate.

The good news is, that there was an increase in the HIPAA per diem for 2019 ($370 per day) that is consistent with historical HIPAA per diem rate increases, thus the use of benefits from indemnity LTC coverage will continue with the same flexibility and choice that has existed in the past.

Historical HIPAA per diem rates			
1997	$175	2008	$270
1998	$180	2009	$280
1999	$190	2010	$290
2000*	$190	2011	$300
2001	$200	2012	$310
2002	$210	2013	$320
2003	$220	2014	$330
2004	$230	2015*	$330
2005	$240	2016	$340
2006	$250	2017	$360
2007	$260	2018	$360
		2019	$370

* Years with no increase in the HIPAA per diem

The calculation that allows for LTC benefits to be received tax free, cumulative of all policies being paid for the benefit of the insured, and regardless of who owns the policies is either:

- the greater of the HIPAA per diem in the year of claim, **<u>or</u>**
- actual qualifying LTC expenses incurred.

Thus, any amount of LTC benefits received in the year of claim that are equal to the HIPAA per diem or less will be tax free with no need to justify expenses. Additionally, any amount received that exceeds the HIPAA per diem but does not exceed actual qualifying expenses, will also be tax free.[1]

<u>Reimbursement plans</u> — These plans generally work as follows:

- Only expenses qualifying under the contract are reimbursed, up to the monthly (or daily) LTC benefit amount purchased.
- Bills and receipts must be submitted monthly to the insurance company to determine the amount that qualifies for reimbursement.
- While some plans may allow direct billing and reimbursement with the care provider, many care providers are not willing to participate in 3rd party billing.

- These plans do not pay any benefit dollars that exceed the cost of care, even if the benefit amount issued is higher than actual expenses.
- Owning two reimbursement policies would typically subject the policy owner to coordination of benefits, so each insurance company would only pay a pro-rata portion of expenses — nothing more.
- Assuming no other policies are being collected from, there is no taxable event.

Indemnity plans — Contract language and policy provisions will dictate any variances from the following:

- Generally, companies offering chronic illness riders (and some companies offering LTC riders) cap their benefits at the HIPAA per diem.[1]
- Bills and receipts will NOT have to be included with the tax return. However, keeping copies of receipts with tax records would be wise should an audit occur, especially if cost of care exceeds the HIPAA per diemi.
- Some companies will pay monthly LTC benefits up to two times the HIPAA per diem rate.[2]
  - o LTC benefits based on two times the HIPAA per diem paid each month could provide significant benefits in the face of expenses in most communities.[3]
  - o Even when the insurance company is willing to pay a LTC benefit amount exceeding the HIPAA per diem, the tax formula established by the IRS for collecting LTC benefits still applies.
  - o Basic indemnity policies generally require some licensed care be provided, but any leftover benefits can be used as desired.

The value of cash indemnity

Cash indemnity benefits offer value to many clients compared to reimbursement plans — or even basic indemnity plans. Because the insurance company does not restrict how LTC benefits are used, and requires no monthly paperwork to collect benefits[4] — cash indemnity policies may be more flexible and easier to use.

Cash indemnity plans do not discriminate against alternative care services, and no permission is required in order to use LTC benefits to pay for such care. While reimbursement plans often have contract language to address use of alternative care services — there are still standards the alternative care service must meet to gain approval — thus the insurance company has the authority to decline benefit payments for these types of services.

Cash indemnity plans can be used to pay immediate family members or unlicensed caregivers that may be less expensive to provide 100% of the insured's care.[4] Reimbursement plans generally do not allow immediate family members to be reimbursed for providing care to the insured and often have limitations or deny reimbursement for unlicensed care providers.

Cash indemnity benefits can be used to pay for care services existing now as well as services invented in the future. This would include traditional care services as well as alternative or "boutique" care services. One cannot predict if a reimbursement plan would pay for creative or alternative services invented in the future.

Nationwide offers Cash Indemnity LTC

Nationwide is proud to offer a suite of LTC solutions, all paying cash indemnity benefits. Once LTC claim requirements have been met and the claim is approved, no monthly bills or receipts need to be submitted in order to receive the monthly LTC benefits.[5]

Nationwide will pay LTC benefits on their LTC products as follows:

1. *The original LTC rider* — monthly LTC benefits will be the lesser of: 2% per month of the LTC specified amount — or, the declared HIPAA per diem in the year of claim times 30 (days).

2. *LTC Rider II* — monthly LTC benefits will be the lesser of: the elected percentage per month of the LTC specified amount (2%, 3% or 4%) — or, two times the declared HIPAA per diem in the year of claim times 30 (days).

3. *LTC Rider on Guaranteed SUL II* — monthly LTC benefits for each individual covered will be the lesser of: 2% per month of the LTC specified amount – or, two times the declared HIPAA per diem in the year of claim times 30 (days).

4. *CareMatters Linked Benefit LTC Policy* — the monthly LTC benefit amount will be the policy's maximum available monthly LTC benefit amount. No HIPAA cap applies to benefits paid on this policy.

5. If the insured is covered by more than one Nationwide policy, each policy is treated separately for determining the maximum LTC benefits that can be received.

Please note that if LTC benefits are being collected on the insured from more than one policy (even with multiple policy owners) or when LTC benefits paid are in excess of the HIPAA per diem, the policy owner will be subject to the IRS formula for tax free benefits; meaning benefits may be received tax free, cumulative of all policies being paid for the benefit of the insured, and regardless of who owns the policies as the greater of:

- the HIPAA per diem in the year of claim, or
- actual qualifying LTC expenses incurred.[1]

In summary

Indemnity benefits remain the same flexible benefits that advisors have been accustomed to presenting to clients; and cash indemnity benefits will continue to offer that extra level of choice and flexibility that clients may find of value.

ASK THE SPECIALIST

Annuities in trust

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Question: Why are trust used in estate planning?

The avoidance of probate is a major reason that some individuals choose to structure their estates through the use of trusts. Generally, probate assets are those assets an individual owns at death and passes on to another by the provisions in a will. Non-probate assets are assets that pass at death by operation of law (beneficiary designation).

Heirs are usually notified and are given the chance to contest a will when it is admitted to probate. Such rights, absent fraud or undue influence, are generally not applicable to trusts. Further, probate can be costly, even where a will is not contested, as fees of executors and attorneys are often based on the monetary value of the assets in the probate estate. These fees and charges can be reduced considerably be removing assets from the probate estate through the use of trusts. The reasons for avoiding probate are stronger in some states than others, and will depend on the client's objectives.

Question: What is the difference between a revocable and an irrevocable trust?

A trust that is established while the grantor is alive is called an intervivos trust. There are two kinds of intervivos trusts; revocable and irrevocable. If the grantor retains the right to change some or all of the provisions of the trust, or to rescind the trust in its entirety, it is called a revocable trust. If the grantor gives up all these rights, it is called an irrevocable trust. One very useful purpose of either trust is to minimize final expenses because either trust allows assets contained therein to bypass the probate process. Further, an irrevocable trust's assets, with the exception of life insurance transferred within three years of the grantor's death, are not included in the individual's gross estate when determining estate tax liabilities. Irrevocable trusts may result in gift tax issues that should be discussed with a tax professional.

Question: Why name a trust as beneficiary?

Qualified plan death benefits are generally non-probate assets because the beneficiary of the death benefits is named by the employee or specified in the qualified plan and the benefits are not affected by the employee's will. However, if the beneficiary named is the employee's estate, the benefits become probate assets and are distributed under the terms of the employee's will, along with all the other probate assets. As such, an important point to remember in effective planning is to review and update beneficiary designations on a regular basis.

The student loan repayment benefit “opportunity” in 401(k) plan design

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Plan sponsors, advisors to plan sponsors, and employees who carry significant student debt load are abuzz with excitement over the recently-issued IRS private letter ruling (“PLR”) 201833012 that authorizes an employer to make nonelective contributions to its 401(k) plan to the accounts of its employees who make repayment of their student loan debt. Because a private letter ruling applies only to the party to whom it was issued, it does not create a widespread opportunity for plan sponsors and their advisors. Nevertheless, PLR 201833012 is significant and will be thoroughly discussed in this paper.

Facts underlying the ruling

The taxpayer (i.e., hereinafter referred to as the “plan sponsor”) who requested the ruling from the IRS sponsors a defined contribution plan with a section 401(k) cash or deferred arrangement (“CODA”) feature that is intended to qualify for tax-favored treatment under Internal Revenue Code (“Code”) section 401(a), hereinafter referred to as the “plan.” Under the plan, an eligible employee may elect to contribute a portion of his or her eligible compensation to the plan each payroll period as pre-tax or Roth 401(k) elective deferrals, or after-tax employee contributions (collectively, “elective contributions”). If an eligible employee makes an elective contribution during a payroll period equal to at least 2% of his or her eligible compensation during the pay period (the minimum permitted elective contribution under the plan), the plan sponsor makes a matching contribution (“regular matching contribution”) on behalf of the employee equal to 5% of the employee’s eligible compensation during the pay period. The regular matching contributions are made each payroll period.

Highlights of the proposed plan amendment to add the student loan benefit program (the “program”)

- Plan sponsor would make an employer nonelective contribution to its 401(k) plan on behalf of its employees who make student loan repayments (“SLR nonelective contribution”).

- Participation by employees in the program is voluntary; they may opt out on a prospective basis.

- If an employee participates in the program, the employee would still be eligible to make elective contributions to the plan but would not be eligible to receive regular matching contributions with respect to those elective contributions while the employee participates in the program. Such an employee would be eligible to receive SLR nonelective contributions and true-up matching contributions, as appropriate, described below.

- All employees eligible to participate in the plan will be eligible to participate in the program. If an employee initially enrolls in the program but later opts out, then the employee will resume eligibility for regular matching contributions.

- Under the program, if an employee makes a student loan repayment during a pay period equal to at least 2% of the employee’s eligible compensation for the pay period, then the plan sponsor will make an SLR nonelective contribution as soon as practicable after the end of the year equal to 5% of the employee’s eligible compensation for that pay period. The SLR nonelective contribution is made without regard to whether the employee makes any elective contribution throughout the year.

- If the employee does not make a student loan repayment for a pay period equal to at least 2% of the employee’s eligible compensation, but does make an elective contribution during that pay period equal to at least 2% of the employee’s eligible compensation for that pay period, then the plan sponsor will make a matching contribution as soon as practicable after the end of the plan year equal to 5% of the employee’s eligible compensation for that pay period (“true-up matching contribution”).

- In order to receive either the SLR nonelective contribution or the true-up matching contribution, the employee would need to be employed with plan sponsor on the last day of the plan year (except in the case of termination of employment due to death or disability). Both SLR nonelective contributions and true-up matching contributions will be subject to the same vesting schedule as regular matching contributions.

- The SLR nonelective contribution will be subject to all applicable plan qualification requirements, including, but not limited to, eligibility, vesting, and distribution rules, contribution limits, and coverage and nondiscrimination testing.
- The SLR nonelective contribution will not be treated as a matching contribution for purposes of any testing under or requirement of section 401(m). The true-up matching contribution will be included as a matching contribution for purposes of any testing under or requirement of section 401(m). Plan sponsor represents that it has not extended and has no intention to extend any students loans to employees that will be eligible for the program.

Plan sponsor's requested ruling from the IRS

The plan sponsor requested a ruling from the IRS that its proposal to amend the plan to provide SLR nonelective contributions under the program will not violate the "contingent benefit" prohibition of section 401(k)(4)(A) and section 1.401(k)-1(e)(6) of the Treasury Regulations. The "contingent benefit" prohibition states that a CODA will not be treated as a "qualified" CODA if any other benefit is conditioned (directly or indirectly) on the employee electing to have the employer make or not make contributions under the arrangement in lieu of receiving cash. The preceding sentence shall not apply to any matching contribution (as defined in section 401(m)) made by reason of such an election.

Ruling of the IRS

The IRS concluded that the proposal to amend the plan to provide SLR nonelective contributions under the program would not violate the "contingent benefit" prohibition of Code section 401(k)(4)(A) and Treasury regulations section 1.401(k)-1(e)(6). It reached this conclusion because SLR nonelective contributions under the program are conditioned on whether an employee makes a student loan repayment during a pay period and are not conditioned (directly or indirectly) on the employee making elective contributions under a cash or deferred arrangement. Furthermore, because an employee who makes student loan repayments and thereby receives SLR nonelective contributions is still permitted to make elective contributions, the SLR nonelective contribution is not conditioned (directly or indirectly) on the employee electing to have the employer make or not make contributions under the arrangement in lieu of receiving cash. The IRS conditioned its ruling on the assumption that the plan sponsor will not extend any student loans to employees that will be eligible for the program; i.e., the student loans have to originate from sources other than the plan sponsor.

Significance of a private letter ruling

A private letter ruling is directed only to the taxpayer who requests it. Code section 6110(k)(3) provides that it may not be used or cited as precedent.

How can other plan sponsors take advantage of the opportunity found in PLR 201833012?

First of all, since PLR 201833012 applies only to the taxpayer who requested it and since it may not be used or cited as precedent, it is of no direct value to other plan sponsors who may wish to offer a similar benefit in their 401(k) plans. It does, however, offer an indication of the thinking of the IRS on the matter of the program described in the facts of the PLR and may encourage other plan sponsors to amend their respective 401(k) plans to offer an identical or similar benefit.

Secondly, a plan sponsor would need to check to determine whether any particular prototype or volume submitter plan document currently contains the language necessary for an adopting employer to take advantage of the program benefits. If the prototype or volume submitter document does not contain the necessary language, a plan sponsor would have to amend the document to add the language describing the program benefits. In so doing, the affected document would lose its status as a pre-approved document with the IRS and the plan sponsor would have to file for its own determination letter as to the qualified status of the plan.

Lastly, assuming that there is currently no prototype or volume submitter plan document on the market that contains the program benefits language, it would be necessary for any plan sponsor that amends its own plan to take advantage of the program benefits approved in PLR 201833012 to request its own private letter ruling from the IRS that the amendment of its plan would not adversely affect the plan's qualified status.

A better way to use permanent life insurance to fund higher education

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Almost as soon as they're born, we envision our mini-mes adorned in cap and gown, college diploma in tow (insert relevant school colors here!). Parents know they should plan, financially, to make this moment a reality. Putting money away for a child's higher education has never been easier; there are a multitude of financial vehicles from which to choose.

Does permanent life insurance have a role to play in funding higher education?

Yes, but not in the way parents may think.

Although it's possible to use the cash value of a permanent life insurance policy to pay for a child's higher education expenses, shifting realities surrounding student loan debt suggest a better approach.

As financial advisors recommending permanent life insurance to your clients to help with higher education planning, the conversation with parents may need to shift from using permanent life insurance as a college savings tool, to using permanent life insurance as a student loan repayment tool for parent borrowers.

Sky's the limit

More than 90% of the $1.5 trillion dollars of student loan debt is federal (public) student loan debt,[14] not private debt.[15] That's not surprising considering that all non-degree students (i.e. undergraduates) are able to borrow federal student loans ($5,500 - $12,500 per year) regardless of their financial circumstances. If additional funds are needed to cover the "cost of attendance" (including room and board), virtually all parents of undergraduates can borrow federal student loans up to the total amount needed, again, regardless of financial circumstances.[16]

What this means is that students and their parents can potentially borrow 100% of the costs of higher education; and since the average annual cost of attendance can sometimes significantly exceed the amount that undergraduate students can borrow,[17] it's no wonder that more and more parents are being called upon to pick up the slack.

Back on Planet Earth: Parent loan debt

The number of "older borrowers" (those 60 and above with student loan debt) has increased by 20% in every state between 2012 and 2017, and in half of states the number of older borrowers increased by more than 46% over the same time.[18] In fact, while the average amount of student loan debt has levelled off in recent years, the average amount of *parent* student loan debt has been increasing. According to a study from savingforcollege.com, the average amount of parent student loan debt recently surpassed the average amount of student loan debt held by degree seekers![19]

The U.S. Consumer Financial Protection Bureau has called these developments "a cause for concern." There have been increasing reports of Americans still paying off student loan debt in retirement and potentially having their Social Security benefit payments garnished due to unpaid student loans.

Parent student loan debt threatens the financial well-being of older Americans (and not so older Americans) including their ability to save for retirement, pay off their mortgages, and enjoy their later years. Unlike student loan debt incurred by students, parent student loan debt is not eligible for forgiveness under the public service loan forgiveness program or the teacher loan forgiveness program; even if parents satisfy the applicable loan repayment period, any remaining amounts forgiven will be taxable income.

Rethinking permanent life insurance's place in the mix

Anticipating the continuance of this trend, it is incumbent upon financial advisors to act and to forewarn new parents about the possibility of parent student loan debt. Whether they fail to save, whether getting federal student loans is too easy, or higher education too expensive, parents seem to be relying more and more on federal student loans to help finance their child's higher education.

Given this new reality, financial advisors can help explain how a permanent life insurance policy can better serve parent loan borrowers:

A self-completing college fund
Both term and permanent life insurance can provide a self-completing college fund in the event of a parent's premature death. But only permanent life insurance develops cash value and can provide additional financial safeguards for parent loan borrowers. Whereas term life insurance protects only the student, permanent life insurance protects both the parent and the student.[20]

As far as face amount, parents can be guided by the cumulative amount they believe will fully fund their child's higher education — whether that means an undergraduate degree, trade school, graduate school, etc. By looking at the current cost of attendance and assuming that there will be some degree of inflation between now and the time their child attends school, parents can feel confident about their decision. They may ultimately choose a face amount that accomplishes other objectives, i.e. more than needed for the projected education fund, or if they choose a face amount that is less than what is projected, they may still be satisfied about being able to provide 50% or 25% of their child's anticipated higher education costs in case of a premature death.

That works best for new parents
Since most parents don't consider planning for a child's higher education expenses until their child is born, they have around 20 years to fund a permanent life insurance policy before a child graduates from college. The younger the child is and the earlier the parent starts funding a permanent life insurance policy, the better this strategy works.

Assuming parents are thoughtful when deciding on a face amount and financial advisors fully explain the multiple ways permanent life insurance can help parents with student loan debt, the life insurance premium will likely comfortably take its appropriate place in new parents' budgets.

And keeps their parent student loan balance in check
Instead of trying to pump enough cash into a permanent life insurance policy prior to the time a child begins college so that the parent can pull the cash out to pay for college (old approach), the cash in the policy is going to remain intact, for the most part, while the child attends college.

Because parents are only able to borrow a kind of federal loan known as a PLUS loan, interest will begin to accrue as soon as their child starts school. Parents should be encouraged to pay this interest as it accrues to prevent it from being capitalized when their child graduates. If the parent does not have the funds to do this from outside of the policy, he or she has a ready source of funds — likely income tax free — to use to make those interest payments. Whether loans or withdrawals from the policy are most appropriate will have to be determined on a case by case basis.

This new approach also aligns better with the mechanics of permanent life insurance; keeping the majority of a policy intact and letting it grow for an extra four (or more![21]) years, supports greater cash value growth and overall policy performance, and thus can better assist parent student loan borrowers.

Gives them options when it comes to parent student loan repayment
When a child graduates from college or otherwise finishes his/her higher education the "in-school deferment" period ends (i.e. the period that no principal is due on federal student loans) and parents will most likely enter repayment. At that same time parents also likely have a healthy, growing permanent life insurance policy that they can decide how to manage.

Parents may decide to leave the policy intact and use outside funds to make their student loan payments. Or, parents may decide to use some funds from inside the policy and some funds from outside the policy to make their student loan payments. Alternatively, parents could always decide to surrender the policy and put the entire surrender value towards their outstanding student loan balance. The point here is that the presence of permanent life insurance gives the parent several appealing options to help them with parent student loan repayment.

And can help enhance quality of life in their later years
If a parent borrower is fortunate enough to have the ability to repay his/her parent student loans without accessing cash from the permanent life insurance policy, the cash may be used in a variety of ways including: Creating a regular stream of tax-free income in retirement, accessed to pay for annual trips to see the kids or grandkids, or for family vacations. (Subject to underwriting, a parent may even be able to add a long-term care rider to the policy!) If parents do not need or want to access the cash in the policy, they can keep it in force until their death. Knowing that they will be leaving a legacy that may allow their grandchildren to obtain a higher education will reinforce the initial propriety of their decision.

Conclusion

As financial advisors, we know that permanent life insurance can be a powerful tool in an individual or family's financial life. This article has suggested rethinking how we position permanent life insurance when it comes to helping parents pay for their children's higher education. The shifting realities of student loan debt support a greater focus on the financial well-being of parent student loan borrowers.

A permanent life insurance policy is the only financial vehicle that provides a self-completing college fund, helps keep parents' student loan balances in check, gives them options when it comes to student loan repayment, or a potential source of funds to enhance their later years and the ability to leave a legacy for more remote generations.

[1] Contributions in Exchange for State or Local Tax Credits, 83 Fed. Reg. 43563

[2] State and Local Income Tax FAQ, www.irs.gov/newsroom

[3] Qualified Business Income Deduction, 83 Fed. Reg. 40884

[4] Additional First Year Depreciation Deduction, 83 Fed. Reg. 39292

[5] For an in-depth look at this issue, see Nitti, T., IRS: Certain Leasehold Improvements Acquired in Late 2017 Are Eligible for 100% Bonus Depreciation, www.forbes.com, August 7, 2018

[6] Rev. Procs. 2018-44, 2018-40, 2018-35, 20-18-29 and 2018-17

[7] Notice 2018-68

[8] Code section 163(j)

[9] A tax professional should be consulted to help determine which of the insured's expenditures would be considered a qualifying long-term care expense for purposes of the IRS formula for tax-free benefits.

[10] Insurance companies offering this feature generally will pay the lesser of: the monthly available LTC benefit elected, or, two times the HIPAA per diem times 30 (or days in the month)

[11] Insurance companies providing long-term care benefits do not guarantee the benefit paid will cover all the LTC expenses incurred by the insured.

[12] Please consult your tax advisor when paying immediate family members or unlicensed care providers.

[13] The insurance company may ask for copies of bills and receipts when verifying a claim and establishing the claim date, particularly when informal care is used. In the case of care provided 100% by informal care givers, the insurance company may depend on the date the Plan of Care is signed to establish a claim date.

[14] https://www.federalreserve.gov/releases/g19/HIST/cc_hist_memo_levels.html.

[15] MeasureOne Private Student Loan Report Q3 2017, https://www.measureone.com/psl.php.

[16] Even parent borrowers with an adverse credit history can still qualify if they get an "endorser" or demonstrate that past adverse credit history was due to "extenuating circumstances."

[17] Average public-school tuition is around $10,000 (in state); average private school tuition is around $32,000. https://bigfuture.collegeboard.org/pay-for-college/college-costs/college-costs-faqs.

[18] https://files.consumerfinance.gov/f/documents/201708_cfpb_older-consumers-and-student-loan-debt-by-state.pdf

[19] https://www.nytimes.com/2018/07/11/your-money/student-loan-debt-parents.html

[20] Note that both federal student loan debt and parent student loan debt will be discharged in case of the death of the borrower.

[21] The average time it takes a student to earn an undergraduate degree is more than four years. https://nscresearchcenter.org/signaturereport11/.

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