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Department of the Treasury
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CC:FIP:B04
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Date:
April 30, 2019

Taxpayer =
Number A =
Number B =
Number C =
Number D =
Number E =

Dear :

This letter is in response to the submission by your authorized representatives requesting a ruling under § 7702B of the Internal Revenue Code concerning a refund of premium paid as a death benefit to be offered as part of certain qualified long-term care insurance contracts.

FACTS

Taxpayer is a life insurance company as defined by § 816(a) and is licensed to offer long-term care insurance contracts.

Among the contracts offered by Taxpayer is a group long-term care contract ("Contract") and the certificates thereunder ("Certificates"), which evidence participation in the Contract. The owner of a Certificate is the covered insured under the Contract. The Certificates are intended as qualified long-term care insurance ("QLTCI") contracts under § 7702B.

A Certificate entitles the owner to insurance coverage of qualified long-term care services within the meaning of § 7702B(c)(1). Coverage under a Certificate is subject to daily benefit and benefit period limitations. All premiums for a Certificate are paid by the

Certificate owner; no portion of the premiums is contributed by an employer. The Certificate is guaranteed renewable and premiums are subject to adjustment after issuance on a class-wide basis. The Certificate includes a premium stabilization feature ("PS Feature") and a refund of premium death benefit ("ROP Death Benefit").

Under the PS Feature, a premium stabilization amount ("PS Amount") may be applied in one or both of the following ways:

1. After the insured has attained age Number A, and the insured has been enrolled for at least Number B years, the PS Amount if sufficient in amount may be applied to offset Number C percent of the Certificate owner's premium obligation for a specified period (such as for the next Number D months) under the Certificate. This option automatically applies unless the Certificate owner affirmatively opts out of this use of the PS Amount.

2. Upon the death of the insured, any remaining PS Amount will be paid to the Certificate owner's estate or beneficiary as an ROP Death Benefit. The ROP Death Benefit cannot exceed Number E percent of the premiums that have been paid for the Certificate less insurance benefit claims paid under the Certificate. Only premiums paid by the owner can be refunded under the ROP Death Benefit. Premiums paid from the PS Amount cannot be refunded under the ROP Death Benefit.

No benefit under the PS Feature is provided upon termination of a Certificate other than a termination due to the death of the insured. If a contingent nonforfeiture benefit becomes applicable under the Certificate, the PS Feature ceases to apply and no ROP Death Benefit is provided on the death of the insured.

The PS Amount with respect to a Certificate is determined under a formula, which may be adjusted from time to time, but the PS Amount, and resulting ROP Death Benefit, can never exceed Number E percent of premiums paid. Apart from the ROP Death Benefit, the PS Amount cannot be received in cash, nor can it be assigned or pledged as collateral for a loan.

REQUESTED RULING

The ROP Death Benefit under the Certificate is consistent with the requirements of § 7702B(b)(2)(C) for the treatment of the Contract as a QLTCI contract within the meaning of § 7702B(b).

LAW

Section 7702B(b)(1) defines a QLTCI contract as any insurance contract that meets all of the requirements listed in §§ 7702B(b)(1)(A) – (F).

Section 7702B(b)(1)(D) provides that a QLTCI contract cannot provide for a cash surrender value or other money that can be paid, assigned, or pledged as collateral for a loan, or borrowed, other than as provided in § 7702B(b)(1)(E) or § 7702B(b)(2)(C).

Section 7702B(b)(1)(E) provides that all refunds of premiums, and all policyholder dividends or similar amounts, under such contract are to be applied as a reduction in future premiums or to increase future benefits.

Section 7702B(b)(2)(C) provides that § 7702B(b)(1)(E) shall not apply to any refund on the death of the insured, or on a complete surrender or cancellation of the contract, which cannot exceed the aggregate premiums paid under the contract. Section 7702B(b)(2)(C) also provides that any refund on a complete surrender or cancellation of the contract shall be includible in gross income to the extent that any deduction or exclusion was allowable with respect to the premiums.

ANALYSIS

While §§ 7702B(b)(1)(D) and (E) limit the noninsurance payments that can be made from a QLTCI contract, § 7702B(b)(2)(C) allows a QLTCI contract to provide a refund on the death of the insured that does not exceed the aggregate premiums paid for the contract. The ROP Death Benefit is payable only upon the death of the insured and thus satisfies the timing restriction imposed by § 7702B(b)(2)(C). Also, the amount of the ROP Death Benefit cannot exceed Number E percent of the aggregate premiums paid by the Certificate's owner. Such a benefit is therefore consistent with the amount restriction imposed by § 7702B(b)(2)(C). The ROP Death Benefit represents a refund on the death of the insured that is consistent with the requirements of § 7702B(b)(2)(C).

RULING

Based on the representations presented, the ROP Death Benefit under the Certificate is consistent with the requirements of § 7702B(b)(2)(C) for the treatment of the Contract as a QLTCI contract within the meaning of § 7702B(b).

The ruling contained in this letter is based on information and representations submitted by Taxpayer and accompanied by a penalty of perjury statement executed by an appropriate party. This office has not verified any of the material submitted in support of the request for ruling and it is subject to verification on examination.

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter, including, but not limited to, any Code section other than § 7702B(b)(2)(C), whether Taxpayer qualifies as a life insurance company under §816(a) and whether the Contract is a QLTCI under § 7702B.

This ruling is directed only to Taxpayer. Section 6110(k)(3) provides that it may not be used or cited as precedent. A copy of this letter must be attached to any federal income tax return to which it is relevant.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representative.

Sincerely,

John E. Glover
Senior Counsel
Office of Associate Chief Counsel
(Financial Institutions & Products)