



# Protecting Your Retirement Nest Egg

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# Topics to be discussed

- New laws that impact retirement needs planning and long-term care planning
  - The Deficit Reduction Act
  - The Pension Protection Act
- Important retirement decisions
- Longevity planning
- Planning options



# Recently passed legislation

- Encourages personal planning
- Reduces reliance on government programs
- Provides tax advantages to those that plan



# The Deficit Reduction Act

- Signed into law February 8<sup>th</sup>, 2006
- Three major sets of provisions related to long-term care (LTC)
  - Changed Medicaid eligibility for LTC
  - Home equity exemption
  - Annuity treatment



# Medicaid eligibility restrictions

- The Deficit Reduction Act (DRA) extends the look-back period for asset transfers from 3 to 5 years
  - Continues history of making restrictions longer and stronger
    - Tax Equity and Fiscal Responsibility Act (1982)—2 years
    - Medicare Catastrophic Coverage Act (1988)—2.5 years
    - Omnibus Budget Reconciliation Act (1993)—3 years



# Medicaid eligibility restrictions

- The DRA tightens restrictions on asset transfers as well
  - Instead of the penalty period starting on the date of transfer, it now starts at the earliest date the transferor would have been Medicaid eligible
  - Result—a second penalty period may be assessed



# Home equity exemption

- Another change is a Medicaid home equity exemption
- The DRA places a limit of \$500,000 on home equity (allows states at their option to increase to \$750,000)
  - New limit does not apply to situations where a spouse, minor, or disabled child still lives in home
  - This is the first time that a home equity limit has been used

Source: *Deficit Reduction Act of 2006: Implications For Medicaid*; The Kaiser Commission on Medicaid and the Uninsured; February, 2006.



# Annuity treatment



- The DRA mitigates the attractiveness of annuities as a method to shelter funds and qualify for Medicaid
- Now, the state must be named as the beneficiary for annuities held by Medicaid recipients or their spouses
- Purchase of an annuity will now be a penalizable transfer of assets unless the state is listed as beneficiary
- “Medicaid friendly” income annuities such as those that offer balloon payments or payment deferral are now also treated as a penalizable asset transfer

Source: *Important Facts for State Policymakers, Deficit Reduction Act*; Centers for Medicare & Medicaid services, US Department of Health & Human Services; January 8, 2008.



# Deficit Reduction Act summary



- It is a clear message from the federal government to encourage personal planning and limit access to already over-stretched government programs
- We all need to do our part



# The Pension Protection Act

- Signed into law August 17<sup>th</sup>, 2006
- Section 844 of the act allows for certain annuities to be treated as tax-qualified long-term care insurance
  - Annuities funded with after-tax premium sources only
  - Must meet the guidelines set forth in the Health Insurance Portability and Accountability Act of 1996 (HIPAA).
  - HIPAA is the law that set standards for long-term care insurance benefits to be considered income tax-free



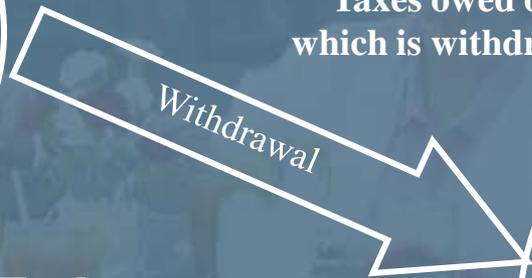
# What this means

- Beginning January 1, 2010:
  - Cash value withdrawals from annuities that meet HIPAA standards and are used to pay for qualifying long-term care expenses are not income taxable as a reduction of cost basis
  - Any benefit payments from long-term care and extension of benefit riders are not considered taxable income
- Any withdrawals or claims prior to January 1<sup>st</sup>, 2010 will be subject to standard annuity taxation

# Existing annuity (funded with after-tax dollars)

\$50,000 basis  
+  
\$100,000 gain  
=  
**\$150,000 cash value**

Taxes owed on gain  
which is withdrawn first



1035 Exchange

**\$150,000**  
HIPAA qualified PPA eligible  
annuity



**Long-term  
care expenses**

Beginning January 1, 2010,  
income tax-free as a reduction of  
cost basis

Numeric examples are hypothetical and were used  
for educational purposes only.



# Pension Protection Act summary

- Now there are annuities that can be utilized for LTC expenses in a tax advantaged way
- Annuities exist today that meet PPA standards
  - Access to cash value for LTC expenses
  - Options to extend benefits beyond the annuity's value
  - The ability to provide coverage to both spouses from one policy
  - Care can be provided in a number of ways (home care, assisted living)

# Important retirement decisions

- Providing sufficient income
- Estate planning—efficiently passing your assets to the next generation
- Protecting assets



# Obstacles we all face

- Market downturns or poor earnings
- Outliving assets: planning to live to 85 and living to age 95
- Extended illness/care stay
  - Long-term care can not only threaten your assets but also your income.



# Longevity



- Longevity means living a long life.
- As you get older, you may need care.
  - What are the chances?
    - According to the US Dept. of Health and Human Services website<sup>1</sup>:
      - » About 70% of individuals over age 65 will require at least some type of long-term care services during their lifetime
      - » Over 40% will need care in a nursing home for some period of time
      - » Women need care for longer (on avg. 3.7 years) than do men (on avg. 2.2 years)
  - What's the impact upon your wealth?

<sup>1</sup>US Dept of Health and Human Services, Oct. 22, 2008.



# Planning for longevity

- You have multiple concerns:
  - Wealth transfer
  - Asset growth
  - Long-term care
- Solutions exist that can solve multiple concerns by utilizing assets you already own.



# Asset-Care<sup>®</sup> |

*Single-premium whole life insurance with LTC benefits*



- Hypothetical Asset-Care example
  - Joint insureds
  - Joint equal age of 65 years
  - Current personal account of \$100,000
    - Taxable

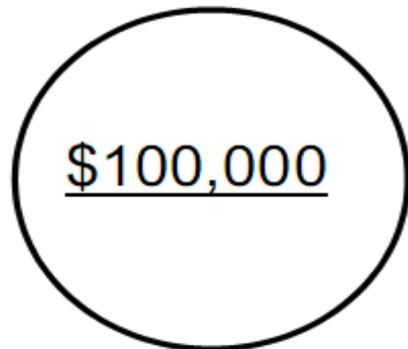
As your personal situations change (i.e., marriage, birth of a child or job promotion), so will your life insurance needs. Care should be taken to ensure this product is suitable for your long-term life insurance needs. You should weigh any associated costs before making a purchase. Life insurance has fees and charges associated with it that include costs of insurance that vary with such characteristics of the insured as gender, health and age, and has additional charges for riders that customize a policy to fit your individual needs.

# Asset-Care | example

Single-premium whole life insurance with LTC benefits

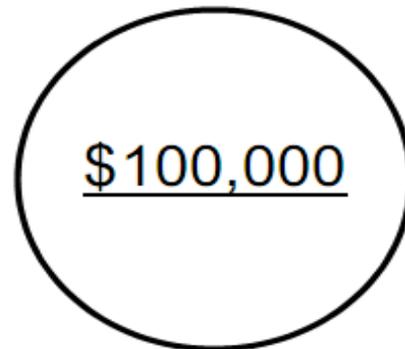


Current Account



Taxes  
owed on  
growth

Asset-Care  
Premium



LTC benefit  
monthly: \$4,419

Total long-term  
care or death  
benefit

**\$220,945**

No income tax

Numeric examples are  
hypothetical and were used  
for educational purposes only

LTC benefits paid reduce  
the death benefit.



# Asset-Care I

*Single-premium whole life insurance with LTC benefits*



- Asset-Care I features
  - Guaranteed:
    - Cash value accumulation at a minimum 4% interest rate
    - Death benefit
    - Long-term care benefits
  - Entire death benefit can be used to fund LTC
  - LTC benefits paid reduce death benefit
  - No income taxes payable on LTC or death benefit
  - Unused LTC benefits pass income tax-free as life insurance
- In scenario from previous slide, \$220,945 is actual benefit received from a \$100,000 single premium based upon a male and female with a joint equal age of 65, class 1 and non-smokers

# Asset-Care I illustration

Single-premium whole life insurance with LTC benefits



End of Policy Year	Insureds' Joint Equal Age	Contract Premium	Cash Value Accumulation Fund	Cash Surrender Value*	Death/LTC Benefit Balance
1	66	\$100,000	\$94,096	\$100,000	\$220,945
2	67	\$0	\$97,781	\$100,000	\$220,945
3	68	\$0	\$101,551	\$100,000	\$220,945
4	69	\$0	\$105,400	\$100,000	\$220,945
5	70	\$0	\$109,324	\$101,671	\$220,945
10	75	\$0	\$129,639	\$127,695	\$220,945
15	80	\$0	\$149,898	\$149,898	\$220,945
20	85	\$0	\$167,797	\$167,797	\$220,945
25	90	\$0	\$181,431	\$181,431	\$220,945
30	95	\$0	\$191,687	\$191,687	\$220,945

\*Guaranteed Return of Premium reflected in years where surrender value is less than premiums paid. Guarantees are subject to the claims paying ability of State Life.

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# Annuity Care®

## Another solution



- **Annuity Care**
  - Uses structure of fixed-interest deferred annuity to provide LTC protection
  - Guaranteed minimum interest rate
  - Existing asset can be repositioned – no annual premiums required
- **Eligible for Pension Protection Act tax advantages**

A fixed annuity is a long-term, tax-deferred insurance contract designed for retirement. It allows you to create a fixed stream of income through a process called annuitization and also provides a fixed rate of return based on the terms of the contract. Fixed annuities have limitations. If you decide to take your money out early, you may face fees called surrender charges. Plus, if you're not yet 59 ½, you may also have to pay an additional 10% tax penalty on top of ordinary income taxes. You should also know that a fixed annuity contains guarantees and protections that are subject to the issuing insurance company's ability to pay for them.

# Annuity Care



- Other features:
  - Earns tax-deferred interest each year
  - Provides funds to cover monthly LTC benefits
  - Optional lifetime LTC protection with guaranteed premiums
  - Benefits available to either or both spouses on one policy



# How will you protect your assets?

- Cash
- Home
- Retirement
- Property
- Other





# Questions? Thank you for attending!

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Not insured by any federal government agency**

Asset-Care and Annuity Care are underwritten and issued by The State Life Insurance Company, a OneAmerica company, Indianapolis, Indiana. Policy Forms: *Asset-Care*: L301, SA31 and R501; *Annuity Care*: SA34, R508. Products not available in all states or may vary by state.

State Life does not provide tax or legal advice. Please consult with an attorney or tax advisor.

Guarantees subject to the claims paying ability of The State Life Insurance Company.

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