



# *Annuities and the Pension Protection Act*

I-20450 12/8/09

THE STATE LIFE INSURANCE COMPANY | a ONEAMERICA<sup>®</sup> company

# *Planning for retirement*

- *How prepared are most Americans?*
- *What benefits are really there?*
  
- *Many are hoping to retire comfortably, but not planning accordingly:*
  - *Most require about 70% of pre-retirement income to maintain their standard of living in retirement*

*“The Retirement System in Transition: The 2007 Retirement Confidence Survey.” Employee Benefit Research Institute, EBRI Issue Brief No. 304, April 2007.*

# Defining the terms

- **Benefit Triggers**
  - *how to qualify for LTC claims*
- **Non-qualified**
  - *premium from after-tax sources (e.g., CDs, savings, etc)*
- **Tax deferred**
  - *taxes are not paid until funds are withdrawn*
- **Tax-qualified**
  - *LTC coverage meeting federal standards to receive tax benefits*

# *Planning for retirement*

- *Where are you in your life?*
  - *Annuities?*
  - *CDs?*
  - *Stocks?*
  - *IRA?*
  - *Pension?*
  - *Social Security?*

# Annuities

- *Financial tool for people planning for retirement*
- *Why people buy them:*
  - *Accumulate tax-deferred interest*
  - *Availability of guaranteed lifetime income*
  - *Proceeds can pass to beneficiaries free of probate*

*Any withdrawals that are considered investment gains are taxed as ordinary income. Withdrawals or distributions made prior to age 59 1/2 may be subject to a 10 percent income tax penalty.*



# Annuities

- *According to 2009 Gallop survey of Non-Qualified Annuity owners:*
  - *83% say they will use their annuity savings as a financial cushion in case they or their spouse live well beyond their life expectancy*
  - *81% use their annuity savings to avoid being a financial burden on their children*
  - *73% purchased an annuity to cover the potential expense of unpredictable events such as a catastrophic illness or the need for nursing home care*

# *Annuities*

- *If you aren't...*
  - *Do you have money set aside to cover the potential risk of unexpected health care risks?*

# *Long-term care expenses*

- *The truth:*
  - *Many think it will never happen to them*
  - *4 out of every 10 people turning 65 will use a nursing home at some point*

*(Long-Term Care. Agency for Healthcare Research and Quality, 2002)*



# *Benefits of planning*

- *Two-fold relief*
  - *Emotional*
    - *The worry and burden on families*
    - *Maintain control of choices*
  - *Financial*
    - *Protect finances from LTC erosion*
    - *Alternative to Medicaid*

# *Discussion of LTC insurance*

- *What have you heard?*
- *Do you have friends or family with experiences?*

# *The Government's Role*

- *Health Insurance Portability and Accountability Act, 1996 (HIPAA)*
  - *Allows for individuals to receive tax-free benefit and allows for deductions of insurance premiums on itemized tax returns provided the policy is tax qualified*

# *HIPAA continued*

- *Some guidelines for tax qualified policies*
  - *Benefit triggers: ADL\* or cognitive impairment*
  - *Benefits paid are to be a reimbursement of expenses incurred*
  - *LTC policies which pay a ‘per diem’ benefit have a cap above which benefits can be taxable*
    - *2010 cap: \$290/day*

*\* Activities of Daily Living: eating, toileting, transferring, bathing, dressing and continence*

# *The Government's role*

- *10 years later...*
  - *more positive federal legislation*
  - **The Pension Protection Act (PPA), 2006**
    - *Gives more advantages to non-qualified annuity owners wanting to fund their own LTC coverage*
    - *Only specific types of annuities qualify*



# *PPA annuity tax advantages*

- Any LTC claims paid from the annuity's cash value will not be taxable, regardless of cost basis\**
- Extension of benefit options and riders will be considered tax-qualified and benefits paid from them will not be taxable\**
- Qualified LTC coverage, under section 7702B of HIPAA, can now be added to annuity contracts.*

*\* Provisions are effective Jan. 1, 2010  
(for contracts and/or riders with tax-qualified LTC coverage)*

# *Non-compliant annuities*

- *Annuities that don't benefit from the PPA:*
  - *Contracts that simply waive surrender charges*
  - *Annuities with nursing home waivers*
  - *Annuities funded by IRAs, 401(k)s, etc.*

# PPA solutions

- **Annuity Care®**

- *Helps protect LTC exposure using fixed-interest annuity*
- *Appealing approach for self-funders*

*Annuity Care is a single premium deferred annuity medically underwritten and issued by The State Life Insurance Company, Indianapolis, Indiana. It may credit additional interest to amounts withdrawn for qualifying long-term care expenses.*

*Policy Forms: SA34, R508. Not available in all states.*

*Not a deposit. Not FDIC insured. Not guaranteed by any bank. Not insured by any federal government agency.*

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

# Annuity Care

- *PPA enhanced value by providing additional tax-advantages*
- *Existing features:*
  - *Earns tax-deferred interest each year*
  - *Provides funds for monthly LTC benefits*
  - *Extended protection (up to lifetime) available*
  - *Benefits available to either or both spouses on one policy*

*Annuity Care is a single premium deferred annuity medically underwritten and issued by The State Life Insurance Company, Indianapolis, Indiana. It may credit additional interest to amounts withdrawn for qualifying long-term care expenses.*

*Policy Forms: SA34, R508. Not available in all states.*

*Not a deposit. Not FDIC insured. Not guaranteed by any bank. Not insured by any federal government agency.*

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

# *Annuity Care*

- *“But what if I never need/use LTC?”*
- *Win/Win solution*
  - *If you need LTC, money is available on tax-advantaged basis*
  - *If you don't, the unused benefits can go to your named beneficiary*



# *Start building your plan*

- *Questions*
- *Next Steps:*
  - *Discuss options*
  - *Review existing plan*
  - *Take action – own a solution*

ONEAMERICA® companies:  
AMERICAN UNITED LIFE INSURANCE COMPANY®

ONEAMERICA SECURITIES, INC.

PIONEER MUTUAL LIFE INSURANCE COMPANY

A stock subsidiary of American United Mutual Insurance Holding Company

R.E. MOULTON, INC.

THE STATE LIFE INSURANCE COMPANY