

SOME POLICIES MAY PROVIDE LONG-TERM, TAX-FREE BENEFITS FOR PURCHASER

Investors may be “down” in the face of low returns on investment and more volatile prices, but many have found that there are certain alternative solutions that not only provide a respectable interest credit rating relative to other investments, but can also be used to bolster traditional investment vehicles. Some even provide guaranteed leverage of up to three times the deposit to pay for long-term care (“LTC”) expenses, if needed, on a completely tax-free basis.

For example, under provisions enacted under the Pension Protection Act of 2006 (“PPA”), effective January 1, 2010, certain fixed annuity contracts that provide qualified LTC benefits—meaning they provide benefits according to PPA directives—may do so tax-free. It is this additional guaranteed leverage that has many individuals purchasing these types of contracts, known as a Section 1035 exchange.

Individuals who have held annuities for many years and have significant capital gains accumulated stand to benefit from such an arrangement,

which allows a tax-free exchange from an existing annuity to a newer “linked benefit” annuity or LTC contract. For example, an annuity currently worth \$100,000 but originally purchased for \$20,000 may be transferred, without an associated tax burden, to provide up to \$300,000 for long-term care expenses. If the monies are needed for LTC, the capital gain in the annuity is never taxed.

Many individuals shy away from purchasing a traditional LTC policy because they do not want to pay premium rates for a benefit they may never receive. Instead, they decide that “self-insuring” is a better option. While self-insuring generally isn’t the best approach, since in the event of a catastrophic loss/claim you may be exposed to huge losses, “now-linked” annuity contracts can provide both asset growth on a tax-deferred basis and leverage for tax-free LTC payments. While the cost of the LTC coverage reduces the net annuity interest rate a bit, it can be a perfect strategy for those who want to hedge their possible LTC needs while still accumulating assets.

Who may benefit from this linked benefit annuity/LTC insurance contract?

- A current annuity holder where the annuity has a built-up gain;
- An individual who understands the need to hedge against a possible LTC need and likes the idea of leveraging assets on a guaranteed basis; and/or
- An individual who does not need current income from the annuity for general living expenses.

The current interest rate environment and instability of the financial markets, combined with the need to protect against a potential LTC need and recent changes to the tax implications of linked annuity/LTC needs, may make these contracts an optimal solution for you.



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