OneAmerica℠ Financial

LTC: Making the complicated… Simple!

Multi-purpose for Living, Legacy, & LTC

Exploring the tax benefits of the
Pension Protection Act of 2006
Code Section 7702B(e)(1)



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Questions to consider

Why did my client purchase an annuity?

Why will my client USE their annuity?

Is tax-free really a big deal?



Provided content is for overview and informational purposes only and is not intended as tax, legal, fiduciary, or investment advice.

Facts and Figures

Annuity Marketplace



$2.29 trillion[1]

Total retirement annuity assets

$385 billion[2]

2023 total annuity sales

1.Statista, 2024, https://www.statista.com/statistics/188002/retirement-annuities-total-assets-in-the-us-since-2000. 2. Secure Retirement Institute, Preliminary U.S. Individual Annuity Sales Survey, 2024 LIMRA.

Facts and Figures

Profile of Individual Annuity Owner

84%	**74**	**78%**
Purchased their first annuity before age 65	Average current age of annuity owner	Owners of individual annuities are retired

https://www.annuity-insurers.org/wp-content/uploads/2023/07/Gallup-Survey-of-Owners-of-Individual-Annuity-Contracts-2022.pdf

Facts and Figures

Uses of Individual Annuities

According to Gallup Poll:

Nonqualified annuity owners intend to use their annuity:

84%

As a financial cushion if they or their spouse lives beyond their life expectancy

79%

To avoid being a financial burden on their children

67%

As an emergency fund for catastrophic illness or nursing home care.

https://www.annuity-insurers.org/wp-content/uploads/2023/07/Gallup-Survey-of-Owners-of-Individual-Annuity-Contracts-2022.pdf

Facts and Figures

Attitudes Toward Individual Annuities

Reasons for Purchase

Most common reason for purchasing an annuity is that it is considered a “safe purchase” (**89%) indicate this was very or somewhat important in their decision.**



Taxation Importance

The fact that interest on annuities are not taxed until distributed continues to be a strong motivation to use an annuity for retirement. **(81%) cite the tax treatment as important to their decision.**



Guarantees

(84%) cite the guaranteed payments for as long as they live as an important reason for purchasing an annuity.



https://www.annuity-insurers.org/wp-content/uploads/2023/07/Gallup-Survey-of-Owners-of-Individual-Annuity-Contracts-2022.pdf

Facts and Figures

Convergence of Tax Policy and Usage

Tax Deferral as Incentive

The proportion of owners agree keeping the tax advantages of annuities is a good way of encouraging long-term savings remains high **(86%)**



Distribution as Disincentive

Nine in ten owners of annuities **(90%)** say they try not to withdraw money from their contract before retirement to avoid paying extra taxes.



https://www.annuity-insurers.org/wp-content/uploads/2023/07/Gallup-Survey-of-Owners-of-Individual-Annuity-Contracts-2022.pdf

Pension Protection Act of 2006

The Pension Protection Act, also known as Public Law 109-280, is a wide-ranging piece of legislation signed into law August 17, 2006.

While the majority of it deals with changes and reforms to pension governance, Section 844 of the act deals specifically with annuities, long-term care and new tax advantages.



How does the Pension Protection Act work?



As of January 1, 2010, cash value withdrawals from ***specific annuity contracts*** to pay for qualifying long-term care expenses or to pay qualified long-term care insurance premiums, are no longer taxable income but considered as a reduction of cost basis.

Benefit payments from long-term care insurance riders are also not taxable.

“As a reduction of cost basis” means that distributions from the policy are non-taxable and reduce the owner’s cost basis in the contract (but not below zero).

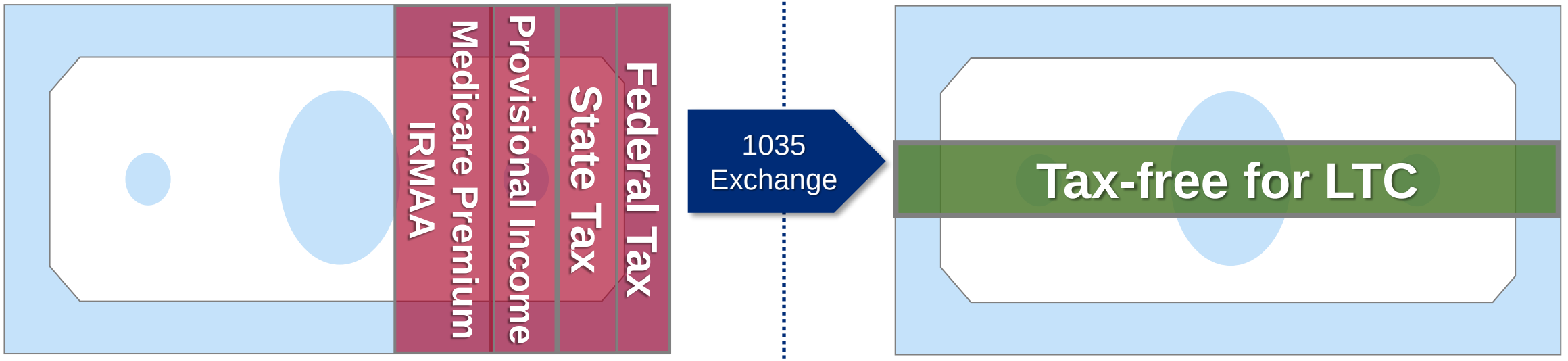
How does the Pension Protection Act work?

Old annuity Without Pension Protection Act

Cost Basis & Growth - No tax benefits

Pension Protection Act LTC Qualifying Annuity

Cost basis & Growth Tax-free LTC



What is not a Pension Protection Act LTC qualifying annuity?

Nursing Home Doubler

Dubbed a "confinement rider," this feature can double income for up to five years or until the accumulation value runs out, with variations depending on the annuity product. Notably, it doesn't offer tax benefits.

Nursing Home Waiver

A contract feature that allows the annuity holder to withdraw money without triggering surrender charges. It does not offer tax benefits.

Qualified money

Funds in retirement accounts like IRAs, 401(k)s, and 403(b)s. While these accounts enjoy tax advantages upon deposit, they become fully taxable upon distribution.

Medicaid Annuity

Requires a lump sum for equal monthly payments, utilized to reduce assets for one spouse to qualify for Medicaid while the other receives the annuity's income. Income must meet certain limits for eligibility, and there are no associated tax benefits.

No policy language

"For taxable years beginning on or after January 1, 2010, this Contract is intended to be a federally qualified Long-Term Care insurance contract under Section 7702B(b) of the Internal Revenue Code of 1986 as amended."

Base Annuity Policy

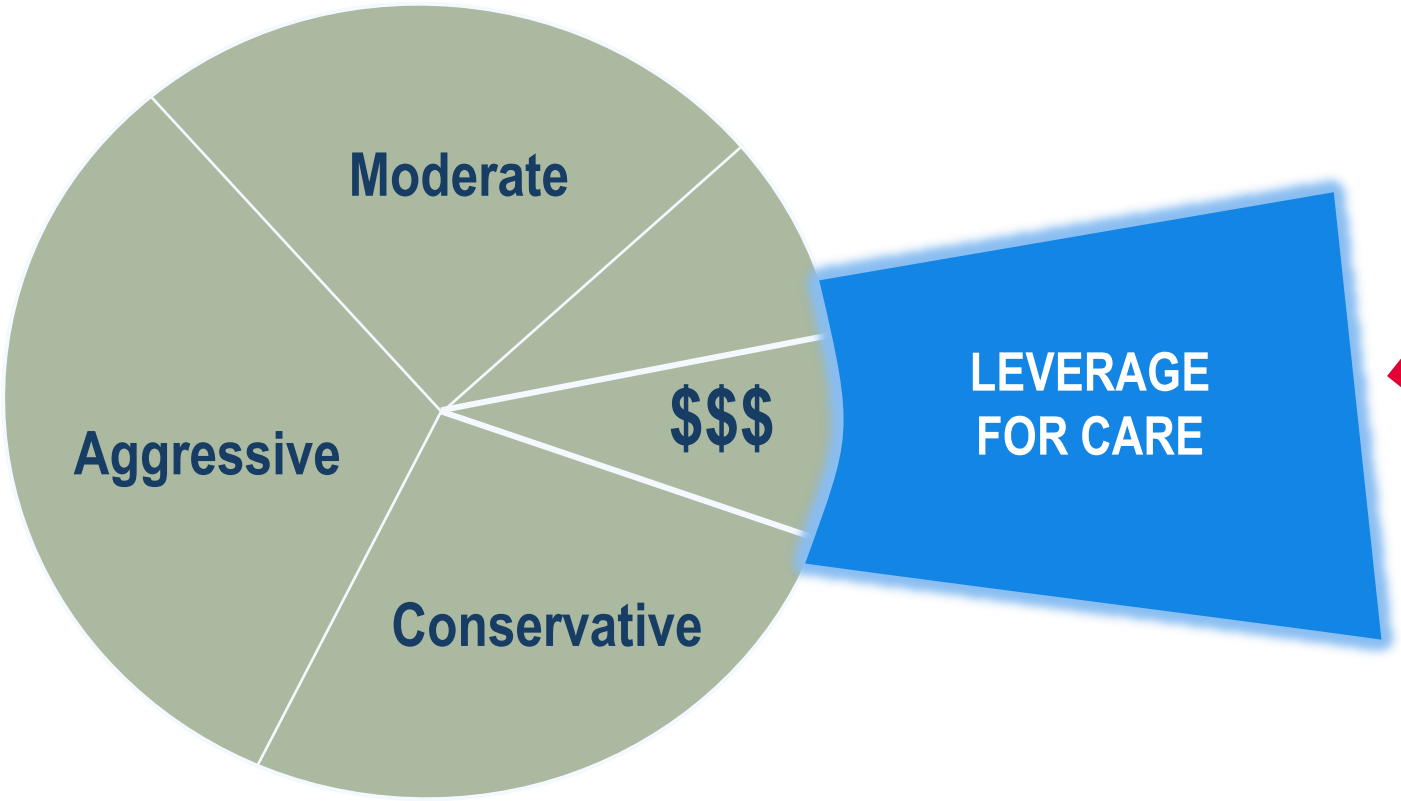
Annuity Care Solutions Base Only

- Annuity Care
- Indexed Annuity Care

Products are issued and underwritten by The State Life Insurance Company® (State Life), Indianapolis, IN, a OneAmerica company that offers the Care Solutions product suite. Indexed Annuity Care Form numbers: SA36, R529 PPA, R529, R530 PPA and R530; ICC14 SA36, ICC14 R529 PPA, ICC14 R529, ICC14 R530 PPA & ICC14 R530. In ID: SA34, R508; SA35 (ID). Not available in all states or may vary by state.

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Concept of a deferred annuity **with** LTC Benefits

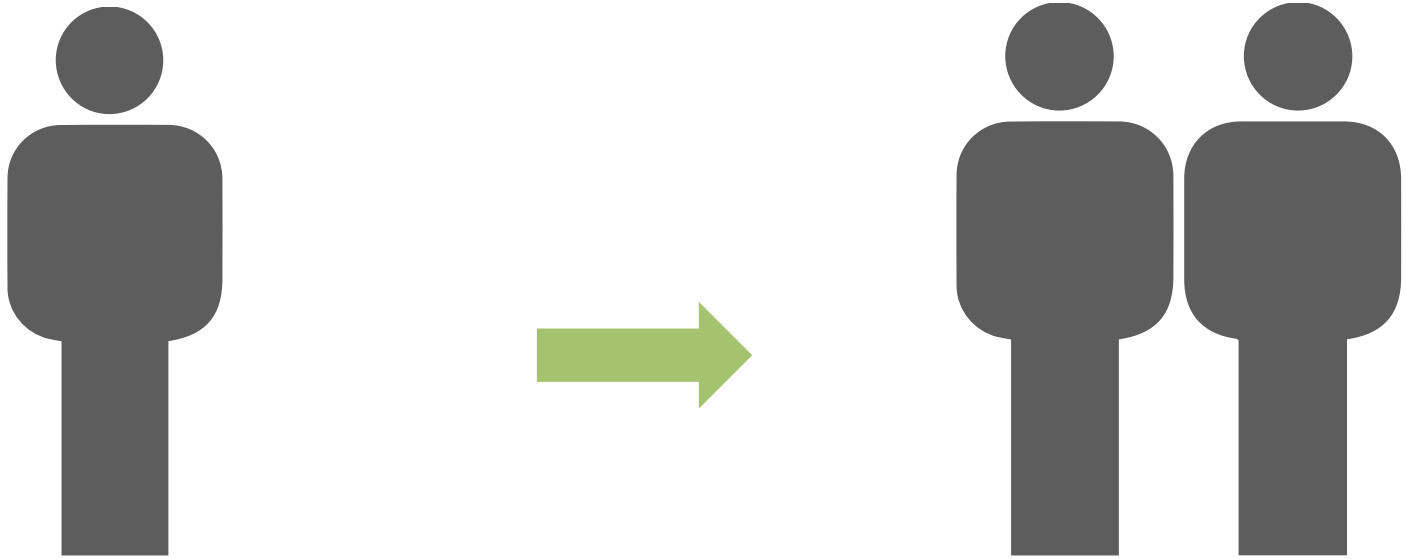


Tax-free if used for LTC;
all interest growth as well, past and future

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Eligible Person Provision or Joint Ownership

Two options of insuring spouses with Annuity Care products



Eligible Person Provision
Individually owned with spouse as eligible person to receive LTCI benefits in addition to owner (spouse)

Joint Access/ Ownership
Jointly owned with each spouse eligible for LTCI benefits

Knockout Questions

Section B – Answer the following questions as they relate to the annuitant(s) and eligible person named above.	Yes	No
5. Do you currently use any of these mechanical devices: wheelchair, walker, dialysis machine, oxygen equipment, respirator, stair lift, chair lift, or motorized scooter?	☐	✓
6. Do you currently need or receive help in doing any of the following: bathing; eating; dressing; toileting; transferring into and out of a bed, chair, or wheelchair; and/or maintaining continence?	☐	✓
7. Do you currently have, or have you ever had a diagnosis of, or been treated for: Alzheimer's disease, dementia, or memory loss? Multiple sclerosis, muscular dystrophy, ALS (Lou Gehrig's disease), or Parkinson's disease?	☐	✓
8. Have you ever been diagnosed as having or been told by a medical doctor that you have AIDS, HIV, or ARC disorders, or tested positive for antibodies for the AIDS virus?	☐	✓
9. Are you currently receiving or have you ever received social security disability income benefits?	✓	✓
Stop Here!		

Advantages of Base Only Strategy

- **Instant Approval*** e*App* up to $1 Million
- Issues to age 85
  - *(up to 87 with Home Office approval)*
- Benefits are tax free for LTC
- Joint coverage can protect two spouses
- Family access to **Claims Concierge**

**Answer five knock-out questions, electronic application only.*
** Paper applications approval approximately 48 hours*

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Hypothetical Examples

Annuity asset-based LTC Protection



All numeric examples are hypothetical and were used for explanatory purposes only.

Funding with ***existing annuity***

Hypothetical example
Annuity Care
Female, age 77

Year 1	
$200,000	Premium (1035 exchange)
$6,049	Monthly LTC Benefit*
$208,700	LTC Total Account Value*
$207,700	Account Value (death benefit)*
Year 10	
$8,874	Monthly LTC Benefit*
$306,164	LTC Total Account Value*
$291,807	Account Value (death benefit)*

Tax-free for LTC

Instant Approval!

34.5% Annual Free withdrawal for LTC

**Projected (Non-Guaranteed) Interest Rates*
**End of Year values*
All numeric examples listed are hypothetical and provided for explanatory purposes only.

Funding with ***existing annuity***

Hypothetical example
Indexed Annuity Care
Female, age 77

Year 1	
$200,000	Premium (1035 exchange)
$8,848	Monthly LTC Benefit*
$212,354	LTC Total Account Value*
$210,251	Account Value (death benefit)*
Year 10	
$16,476	Monthly LTC Benefit*
$395,417	LTC Total Account Value*
$359,470	Account Value (death benefit)*

Tax-free for LTC

Instant Approval!

Guaranteed increase "step up" for LTC

50% Annual Free withdrawal for LTC

*Non-guaranteed rates – 100% PTP with Par
*End of Year values
All numeric examples listed are hypothetical and provided for explanatory purposes only.

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Questions?



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Life Insurance **Retirement** **Employee Benefits** **Long-Term Care**

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