



# Tax-deferred to Tax-free for LTC: LTC Annuities

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# Disclosures

## *Before we begin*

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Any individuals used in scenarios are fictitious and all numeric examples are hypothetical and were used for explanatory purposes only.

Please note that the replacement of an existing annuity must not be made unless all factors are weighed and it is documented as suitable for the client.

*Annuity Care*: SA34, R508, SA34 (FL) 1, R504 (FL) TQ, R505 (FL), R505 (FL) TQ, SA34 (TX)-R; *Annuity Care II*: SA35, SA35 (ID), SA35 (FL) 1, R521 (FL), R522 (FL), SA35 (TX); *Indexed Annuity Care*: SA36, ICC14 SA36, R529, R529 PPA, ICC14 R529 PPA, ICC14 R529 R530, R530 PPA, ICC14 R530 PPA, ICC14 R530. Not available in all states or may vary by state.

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# Annuity Marketplace

*Typically purchased for the following reasons:*

**1** **Growth**

**3** **Guaranteed  
lifetime income**

Is your client's nonqualified annuity  
where it should be?

**2** **Tax deferral**

**4** **Additional benefits  
to guard against  
catastrophic events**

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# Annuity statistics

*High-level overview*

**\$2.0** trillion = total deferred annuity assets  
Investment Company Institute, The U.S. Retirement Market, Second Quarter 2014  
How many will pass away with an annuity?

**\$117.4** billion = 2016 nonqualified deferred annuity sales  
LIMRA, <http://www.limra.com/Posts/PR/Data-Bank/PR-2016-4Q-Annuity-Estimates.aspx>  
How many are utilizing their income riders?

**65** years = average purchase age of nonqualified annuities  
The Gallup Organization, 2013 Survey of Nonqualified Annuity Contracts

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# Annuities

According to  
a Gallup poll of  
nonqualified  
annuity owners:

- 83% intend to use their annuity to avoid being a financial burden on their children.
- 73% intend to use their annuity as an emergency fund for catastrophic illness or nursing home care.

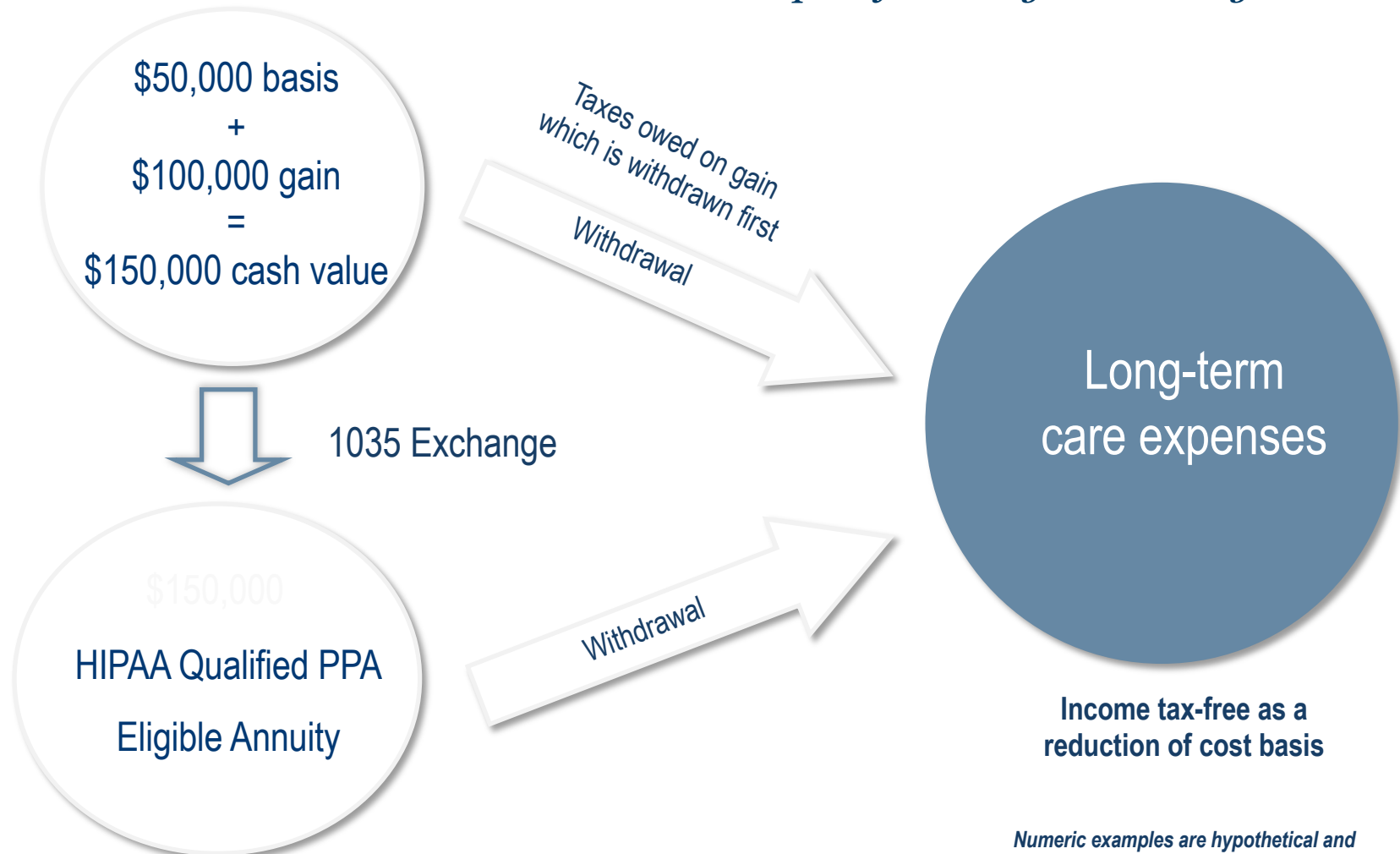
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Existing annuity  
(funded with after-tax dollars)

# Pension Protection Act

*Example of annuity-based long-term care*



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# The opportunity

*And ideal scenarios*

Any client with an existing annuity not earmarked for income and who currently have no care plan in place.

Clients 70-85 with “old” annuities

Clients holding annuities when income isn’t needed.

Clients who are not exposed to PPA benefits

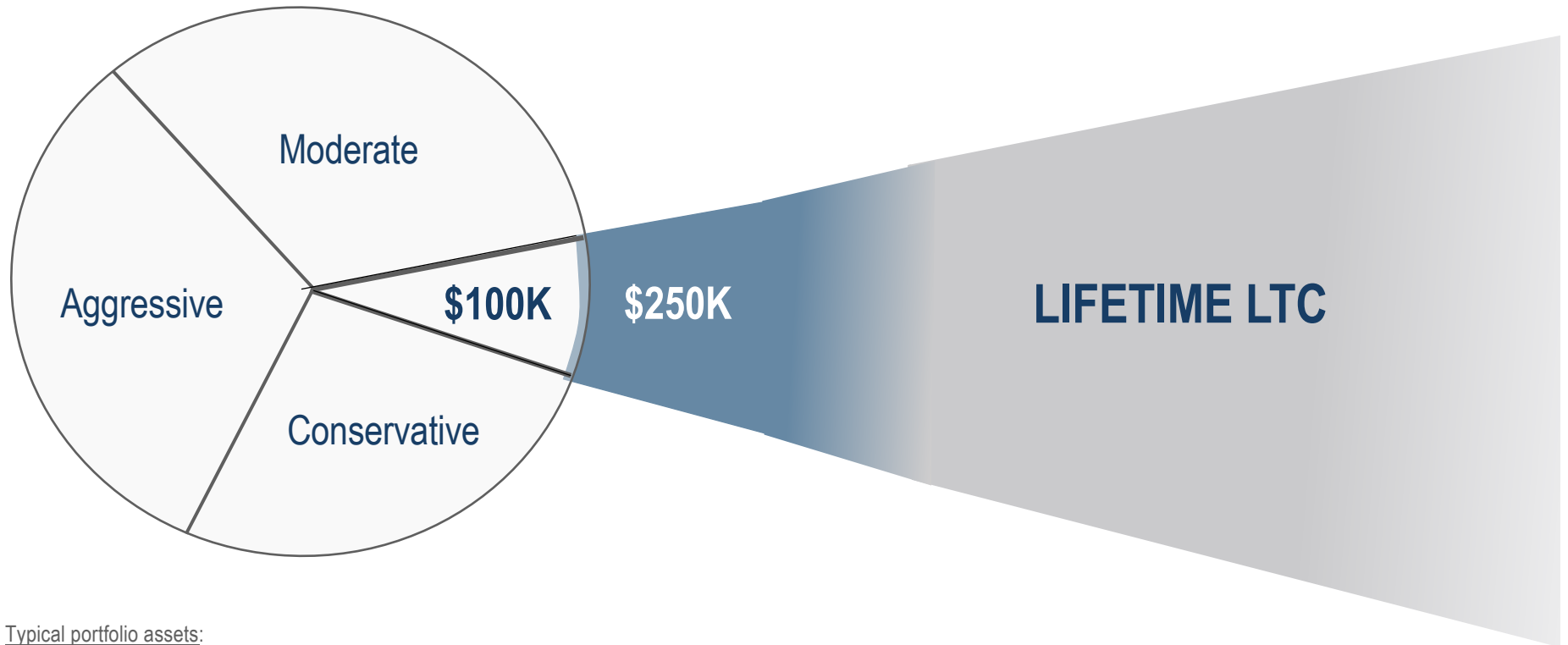
Clients with health issues

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# Annuity Asset-Based LTC

## Concept



Typical portfolio assets:

**Aggressive**—assets positioned for significant growth with the acceptance of the risk of loss of principal

**Moderate**—assets positioned for some growth with the acceptance of some downside risk

**Conservative**—assets positioned for conservation of principal—often with guarantees

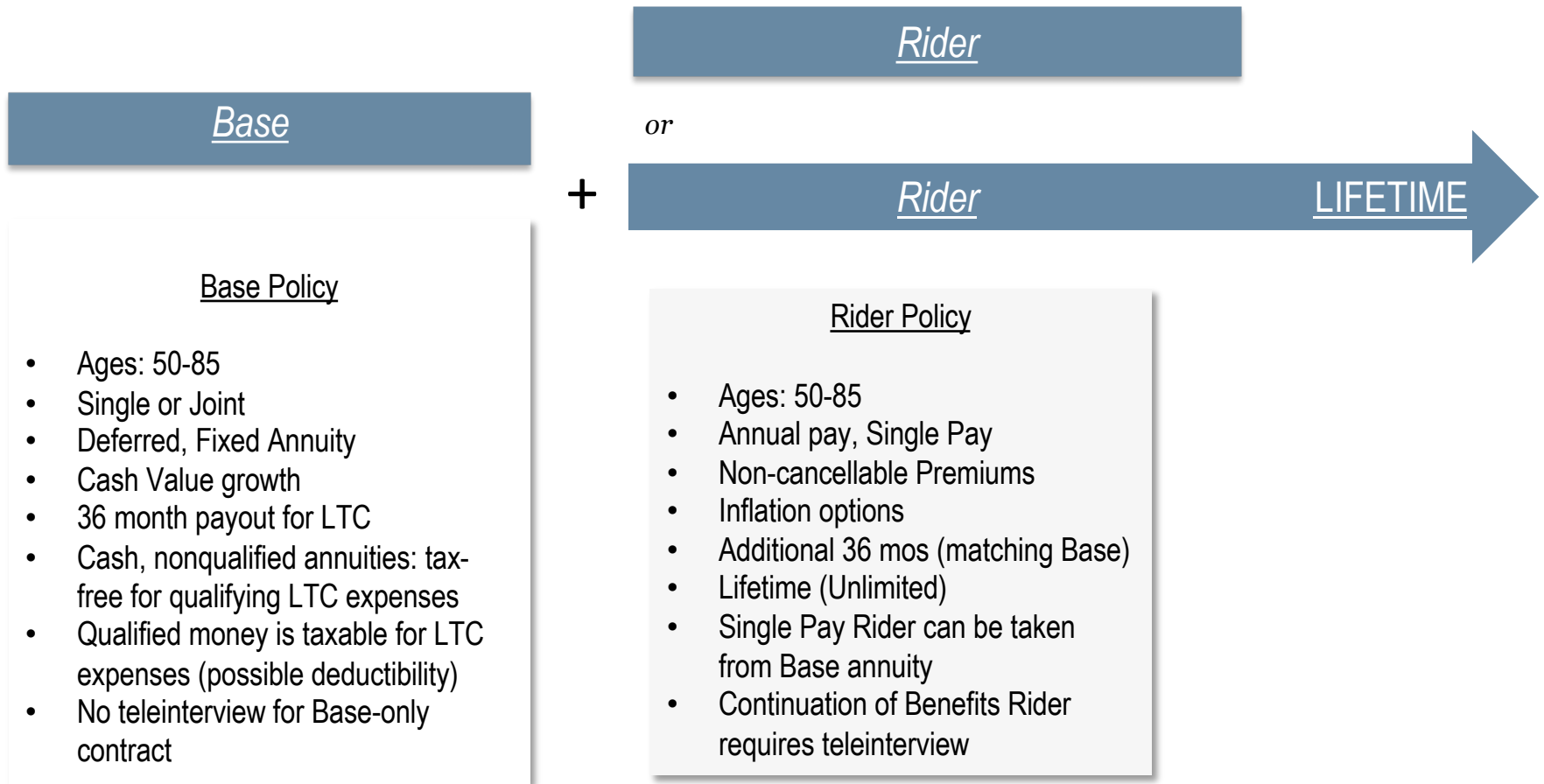
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# Annuity Care

## Concept



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# Hypothetical case study #1

*81 year old female*

Age, health issues  
or tax adversity  
from funding  
source has  
eliminated her from  
a life based LTC  
plan

125K in existing  
nonqualified  
annuity or cash  
fund

Client  
unable/unwilling to  
generate income for  
COB but wants  
lifetime.

Potential care need,  
safety and guarantees  
are priority.

Unable to place  
indexed annuities  
outside of Broker  
dealer or client  
uncomfortable with  
indexing.

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# Annuity Care

81 year Female

- 81 Female \$125,000 in nonqualified annuity
- Doesn't need for income
- Existing annuity has minimum 3% rate guarantee



\$36,000 per year, tax-free benefits – for Lifetime!



What kind of interest rate or income rider would she have to receive to provide her with \$36,000 per year on her \$125,000 annuity?

29%

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# Hypothetical case study #2

*70 year old female*

Age, health issues  
or tax adversity  
from funding  
source has  
eliminated her from  
a life based LTC  
plan

250K in existing  
nonqualified  
annuity or cash  
fund

No need for an  
income stream  
other than care

Potential care need,  
safety and guarantees  
are priority. Cash  
value growth is also  
desired.

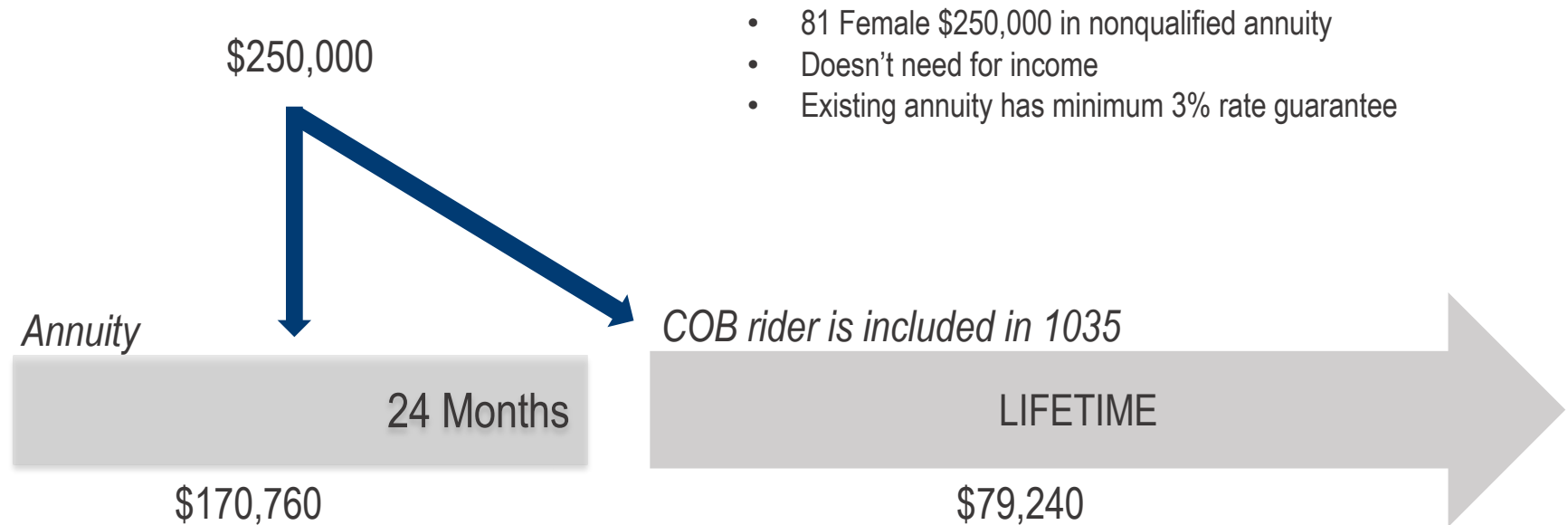
Writing agent is  
familiar with fixed-  
indexed annuity  
structures

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# Leveraged Strategy

*Base + COB Rider*



- 81 Female \$250,000 in nonqualified annuity
- Doesn't need for income
- Existing annuity has minimum 3% rate guarantee

\$85,380 per year for LIFETIME  
(\$7,115 per month for LIFETIME)

*She would have to earn 34% guaranteed for life in another annuity  
to get the equivalent annual benefit!*

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# Indexed Annuity Care Concept

## Base

### Base Policy

- Ages: 40-85
- Single or Joint
- Fixed, Indexed annuity
- Single: 24 month for LTC
- Joint: 30 month for LTC
- Cash, nonqualified annuities: tax-free for qualifying LTC expenses
- No teleinterview for Base only contract
- Built in LTC “Step up” Multiplier

+

## Rider

or

## Rider LIFETIME

### Rider Policy

- Ages: 40-85
- Annual Pay, Single Pay
- Non-cancelable Premiums
- Inflation options
- Single: Additional 24 or 48 months
- Joint: Additional 30 or 60 months
- Lifetime (Unlimited) – Joint or single
- Single Pay Rider can be taken from Base annuity
- Continuation of Benefits Rider requires teleinterview

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# Annuity Care II

## Concept

### Base

#### Base Policy

- Ages: 40-80
- Deferred, Fixed Annuity
- Single: 24 month for LTC
- Joint: 30 month for LTC
- Cash, nonqualified annuities: tax-free for qualifying LTC expenses
- Teleinterview required
- Monthly charges to pay for Rider

+

or

### 36 mo. Rider

### 108 mo. Rider

#### Rider Policy INCLUDED

- Ages: 40-80
- Non-cancelable Premiums
- Inflation available
- 36 months up to age 85
- Monthly Rider charges taken from Base annuity

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May have various health issues that could eliminate her from a life based LTC plan.

100K in existing nonqualified annuity or cash fund

No need for an income stream other than care

Potential care need, safety and guarantees are priority

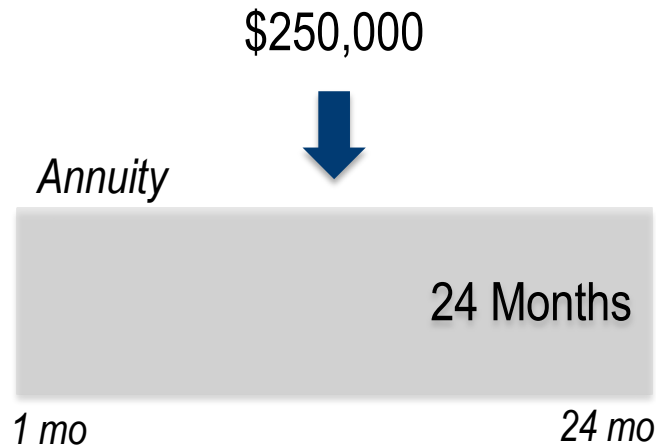
Cash value growth is secondary to creating leverage for care

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# Basic Strategy

*Base policy only*



- 81 Female \$250,000 in nonqualified annuity
- Doesn't need for income
- Existing annuity has minimum 3% rate guarantee

\$125,000 per year for two years  
(\$10,416 per month for 24 months)

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# Why the basic strategy

*How the LTC benefit balance works*



Guaranteed  
increase Multiplier  
“Step up” for LTC



Ability to use her  
money in two years  
penalty-free



No  
teleinterview



Tax-free for LTC  
expenses

**\$10,400 per month for 24 months**  
(\$124,800 per year for two years)

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# Annuity-based LTC

## *Underwriting*

**1** No  
paramedical  
exam

**3** Brief phone  
interview if annuity  
is leveraged

**2** No attending  
physician  
statements

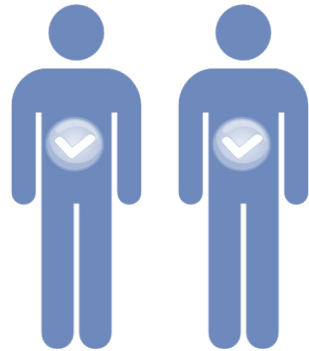
**4** No teleinterview if  
leverage is not  
opted for

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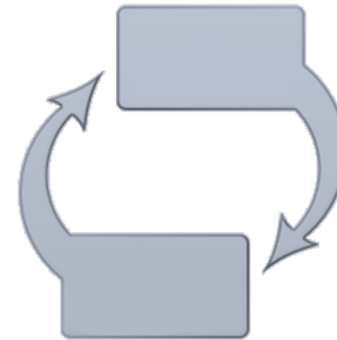
# By the way

## *1035 Exchange*



### **Eligible person**

provides spousal coverage by 1035 exchanging an existing annuity in one spouse's name.



### **Transfer Annuity**

creates an opportunity to use partial 1035 exchange when transferring company will not do partial.

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# Q&A SESSION

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