Planning for long term care via

1035 Exchanges

BACKGROUND

People often purchase financial products (life insurance/annuity contracts) because they have a need to provide for their family in a number of ways. Such needs include saving for retirement, paying off debts, replacing a person's income, providing for children's education expenses, or to pay off a mortgage in the untimely event of someone's death. But, as people get older and their financial obligations change, they sometimes find themselves with a life insurance or annuity contract that doesn't adhere to their original intended purpose and that they no longer need.

ISSUE

As a means to pay for long term care (LTC), a policyowner might consider withdrawing money from the cash value of an existing life insurance policy or the surrender value of an annuity contract that is no longer needed. These policies, often owned for many years, can accumulate a sizable amount of tax-deferred gain that has built up in the contract. If (partially or fully) withdrawn, the owner could be subject to potentially having to pay tax on those gains.

LEGISLATIVE

Pension Protection Act 2006 – Cash value from certain non-qualified, tax-deferred annuities and life insurance contracts may be used (or exchanged) to pay their Long Term Care insurance (LTCi) premium and not be considered taxable income.

The Internal Revenue Code Section 1035 allows the exchange of the cash value from an existing life insurance or annuity contract for a new LTCi policy, without paying tax on the investment gains earned in the original contract.

These transactions are often referred to as a "1035 Exchange."

"Like-kind" transfers for LTCi that qualify as 1035 Exchanges:

- Life insurance to qualified LTCi, or
- Non-qualified, tax-deferred annuity to qualified LTCi.

1035 REASONS

Reasons to do a 1035 Exchange

- Exchange surrender value (principal and tax-deferred gains) of a life insurance or annuity contract for a LTCi policy that provides tax-free benefits should the insured become benefit eligible.
- A new LTCi policy could be better suited for current and future needs than an existing life or annuity contract that no longer meets the purpose for which it was originally intended.
- Protect retirement plan assets from the financial risks of long term care expenses.
- Help preserve an estate for future generations.

SOLUTION

EssentialLTC, a tax-qualified LTCi product issued by National Guardian Life Insurance Company (NGL), is highly customizable and provides a broad range of service options.

Optional Product Features:

- Joint Policy Design & Premium Rates
- Shared Benefit Amount Rider
- Lifetime LTC Benefits
- Return of Premium / Surrender Options
- Single, 10-Year, or Lifetime Premium Payment Options
- Employer Group rate class priced on a unisex basis – see state variation listing for availability
- 5% Association Group premium discount

When using the Limited Return of Premium with Optional Policy Surrender Rider, EssentialLTC can be a great solution for those consumers looking to leave funds to their beneficiaries at death or be able to surrender the policy for a surrender value while alive.

EssentialLTC can be designed with optional riders so that it can be a win/win/win solution for the policyowner and/or their family.

If long term care benefits are needed, the policy pays a long term care benefit.

If long term care benefits are never needed, the total premiums paid can be distributed to a beneficiary at the death of the insured(s) (second to die for joint policies).

If the policyowner changes their mind and no longer wants the policy, the surrender value will be a lump sum payment to the policyowner up to 80% of premiums paid, reduced by benefits received.

NEXT STEPS

1. Identify (cash value) life insurance and annuity contract owners.
2. Review existing contracts to see if they are still needed.
3. Discuss planning options.
4. Determine if long term care planning is necessary.
5. If appropriate, consider reviewing a 1035 Exchange option with your client.

Contact us with any questions or requests for additional information.

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EssentialLTC