



PLANNING FOR LONG-TERM CARE & *The Importance of the Pension Protection Act*

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Most people protect their homes and vehicles with insurance. But do they take the same care to protect their future?

CONSIDER THE FACTS

DID YOU KNOW THAT...

In 2018, on average,
a home fire occurred
every 87 seconds¹



In 2019, over 2 million
drivers were injured
or disabled in a
car accident²



Someone turning 65
today has almost a
70% chance of
needing long-term
care in their remaining years?³



Too often, people neglect a critical asset: *their future*.

Yet, one accident or illness could lead to costly long-term care (LTC) services - and seriously impact their retirement savings.

CONSUMER PERCEPTIONS VERSUS REALITY

While these facts speak loudly of the importance of LTC planning, consumer perceptions seem to differ.

- 32 percent of people over 40 think it is “not too likely” or “not at all likely” they will ever need LTC. Another 41 percent believe it is “somewhat likely” they will need care.⁶
- Additionally, many people over 40 underestimate the costs of nursing home care and overestimate the type of coverage offered by programs such as Medicare. For example, 44 percent of people 40 and older mistakenly believe that Medicare pays for ongoing care at home by a licensed home health care aide.⁷

Additionally:

- In 2019, a 65-year-old couple retiring could expect to spend \$285,000 in healthcare and medical expenses.⁴
- Care costs are steadily increasing. According to a 2018 survey, the national median cost for assisted living per month is \$4,000, which breaks down to about \$133/day and adds up to \$48,000 per year.⁵

- 16 percent of Americans 40 and older report doing “a great deal” or “quite a bit” of LTC planning while a staggering 65 percent of people report doing very little to no planning at all.⁸
- Only 13 percent of Americans carry some form of LTC insurance.⁹

All evidence points to the fact there is a major disconnect between LTC facts and perception among Americans today. This is the perfect opportunity to raise awareness of the importance of LTC planning and educate citizens on the options available to them.

TWO SIMPLE QUESTIONS YOU SHOULD ASK...

1. *“You may never need care, but what if you did?”*

How would that affect your family?

- **Spouses** - Caring for a chronically ill loved one can make the caregiver chronically ill as well.
- **Children** - Other loved ones, such as children, often carry the burden, too. Daughters who are employed are most likely to switch from full-time to part-time employment to help with care giving duties - as any child would feel obligated to do.
- **Family dynamics** - Informal care usually is not shared equally among adult children. One sibling may bear a larger burden, which can strain relationships.
- **Unnecessary losses** - A number of spiritual, emotional, financial and relational losses can be prevented when your clients are prepared for and protected from LTC risks.

2. *“How would you pay for it?”*

Three common ways to pay for LTC expenses

- **Government programs** - This may require them to spend their assets first.

- **Long-term care insurance (LTCi)** - In many cases, traditional LTCi can be very expensive, hard to qualify for and, to many, viewed as a “use it or lose it” policy.
- **Self funding** - Few people are able to pay out-of-pocket, dollar-for-dollar, for all LTC expenses. Doing so can wipe out the savings they’ve worked their entire lives to build.



PLANNING IS ESSENTIAL IN PRESERVING LEGACIES

Your clients have worked hard to accumulate assets for retirement and to leave a legacy for their loved ones or favorite charities. But those assets could be in jeopardy if your clients need LTC. There are many LTC planning strategies available; however, taking advantage of the provisions of the *Pension Protection Act* (PPA) is critical.

What is the PPA and why is it significant?

The PPA was passed by Congress in 2006 and became effective in 2010. The law provides tax advantages for consumers who wish to purchase long-term care. Federal and state governments would prefer consumers and insurance companies pay the cost of extended care rather than consumers spend down their assets and turn to Medicaid for help.

STRATEGY

What are some benefits of the PPA?

The PPA helps consumers who are interested in purchasing long-term care in several ways. The main advantage is the tax incentives. It also offers flexibility to those that have existing assets dedicated for LTC expenses. Interest gains from non-qualified annuity accounts can now be used on a tax-free basis to purchase or fund a traditional or hybrid LTC insurance policy.

How does using a non-qualified annuity to purchase traditional LTC insurance work?

If someone purchases LTC by writing a check, there is no taxable benefits or deductions. However, if a non-qualified annuity is used instead, then the interest gains from the annuity can be used tax-free. This can be done in two ways:

1. *An Immediate Annuity*

By purchasing an immediate annuity, one could send all or a portion of the annual payments to the insurance company offering the LTC plan. This provides payments consisting of principal and interest and as long as the interest is used to pay for the LTC policy, then it will not be taxed as ordinary income.

2. *Yearly Withdraws*

Another option is to make annual withdraws from an older, existing non-qualified deferred annuity. For example, a \$200,000 annuity with a \$150,000 cost basis would have \$50,000 in deferred gains. One could do a partial exchange by using part of the deferred gains that would be taxable, and use those funds to pay for the LTC policy, tax-free annually.

What are hybrid LTC Annuities?

Hybrid annuities are fairly new and growing in popularity. Consumers worry about buying a traditional LTC policy because of costs and rising premiums. Hybrid LTC annuities help avoid these issues. Through exchanging a non-qualified annuity account for a hybrid using the 1035 exchange rule, no taxable gains are generated. Using the above example, the \$50,000 gains would transfer tax-free.

Did You Know...

That while less common, consumers may also use the cash value in their life insurance policy to fund a LTC policy and still be compliant with the PPA? This would also be done using the 1035 exchange rule.

What to do next?

If someone has an existing cash value life insurance policy or fixed or variable annuity contract, they may benefit from repurposing the assets to take advantage of the provisions the Pension Protection Act provides. They can meet with a financial advisor to review their situation and evaluate the options that make the most sense for them.

1. Insurance Information Institute, "Facts+Statistics: Fire", <https://www.iii.org/fact-statistic/facts-statistics-fire>, accessed 02.13.20 2. Issacs & Issacs Personal Injury Attorneys, "Car Accident Statistics 2019", <https://www.isaacsandisaacs.com/car-accident-lawyer/auto-crash-statistics>, accessed 02.12.20 3. LongTermCare.gov, "How Much Care Will You Need?", <https://www.longtermcare.acl.gov>, accessed 02.18.20 4. Investopedia, "How To Plan for Medical Expenses in Retirement", <https://www.investopedia.com/retirement>, accessed 02.13.20 5. Where You Live Matters, "How Much Does Assisted Living Cost", <https://www.wherelivematters.org>, accessed 02.13.20 6. The Associated Press-NORC Center for Public Affairs Research, "Long-Term Care: Perceptions, Experiences, and Attitudes among Americans 40 or Older"; pg.5 7. AP NORC, pg.7 8. AP NORC, pg.5 9. Center for Retirement Research, pg.1

Please list the names of anyone you think would benefit from meeting with a financial advisor to learn more about The Pension Protection Act and how it pertains to their situation:

Name

Phone #

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