# *Benefiting from the Pension Protection Act*[1]

## A hypothetical case-study example

**Client:** Marjorie Jones, age 71

**Status:** Married to husband Ned (age 71)

**Situation:** Marjorie is owner/annuitant of a non-qualified single premium deferred annuity out of surrender charges purchased in 1997. The current cash value is $103,500 (the cost basis/premium paid was $65,000). Their annuity has not been used for income, and based on cash flow projections, will not be required for income. The couple has no long-term care coverage, but has identified this annuity as a source should expenses be incurred.

### Option 1: Keep the annuity where it is

***Pros***

- No surrender charges apply for withdrawals

***Cons***

- Withdrawals for any purpose would be taxable to extent of gain in contract

### Option 2: Move to Annuity Care®

***Pros***

- Can withdraw money surrender charge free for qualifying long-term care expenses[2]
- Using eligible person provision, can add Ned to policy for long-term care purposes
- Money withdrawn for qualifying long-term care expenses is tax-free as a reduction of basis
- 10 percent free withdrawal provision for non-LTC withdrawals
- Can purchase optional extended LTC provision with guaranteed premiums

***Cons***

- New contract with new surrender charge period
- Have to be in good or fair health to qualify (medically underwritten)

Annuity Care®

Ask your insurance representative for more information on Annuity Care and the tax-advantages of the Pension Protection Act.

**1**. *Tax-free LTC withdrawals are available effective January 1, 2010, as stated in the Pension Protection Act law of 2006.*
**2**. *Subject to monthly limits. Please see outline of coverage for complete information.*

**Not a deposit. Not FDIC insured. Not guaranteed by any bank. Not insured by any Federal government agency.**

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**Withdrawal example 1: Short LTC claim situation**

What if Marjorie (or Ned) had a $3,000 per month LTC expense for six months starting in March 2010? How would this impact:

- Their existing annuity — Any amount of money that comes out of their existing annuity, regardless of purpose, would be taxable to the extent of gain in the contract. Since they have gain of more than $18,000, the entire amount withdrawn would be taxable.
- Annuity Care — If the expenses are eligible for LTC payment under the Annuity Care contract, it could be withdrawn without having to pay taxes on the $18,000. This, and any future LTC withdrawals, would not be subject to taxation.[1]

**Withdrawal example 2: Longer LTC claim situation**

What if Marjorie (or Ned) had a $3,000 per month LTC expense for three years (36 months) starting in March 2010? How would this impact:

- Their existing annuity — Any amount of money that comes out of their existing annuity, regardless of purpose, would be taxable to the extent of gain in the contract. The money withdrawn would be taxable to the extent of gain, up to the cost basis of $65,000. So, at least $43,000 would be taxable to the Jones ($3,000 x 36 months = $108,000 – $65,000 basis = $43,000 taxable).
- Annuity Care — If the expenses are eligible for LTC payment under the Annuity Care contract, it could be withdrawn without having to pay taxes on the $108,000. This, and any future, LTC withdrawals would not be subject to taxation.[1]

If the optional Annuity Care Plus continuation of benefits option/rider was purchased, it will continue to provide LTC benefits after depletion of Annuity Care's base coverage due to LTC withdrawals.

**1**. *Tax-free LTC withdrawals are available effective January 1, 2010, as stated in the Pension Protection Act law of 2006.*

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It is always important to review your overall financial picture before reallocating existing assets. However, if you have an old annuity that is not accessible for long-term care expenses, or cannot provide you with tax-advantaged access to your money for those expenses, it could be time to ask your insurance representative about Annuity Care from The State Life Insurance Company.

**Notes:** Marjorie and Ned are fictitious and not the individuals in the picture. The specifics of all cases are hypothetical and were used for illustration purposes only. Annuity Care is a single premium deferred annuity, medically underwritten and issued by The State Life Insurance Company, Indianapolis, IN. It may credit additional interest to amounts withdrawn for qualifying long-term care expenses. State Life policy forms: SA34, R508. Products not available in all states or may vary by state.

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