



Pension Protection Act 2006

Exciting changes effective January 1, 2010

The Pension Protection Act (PPA) was created primarily to reform how defined pension plans are funded and administered. The premise of the act was to help protect participants of pension and retirement plans, while at the same time encouraging savings. However, effective 1/1/10 new opportunities resulting from the Pension Protection Act allow some annuity owners to use their annuity dollars to pay for long-term care insurance premiums tax-free.

If you own a single premium deferred annuity (SPDA) you could use a partial 1035 exchange from this new or existing non-qualified annuity to another annuity that can then pay for a tax qualified long-term care insurance premium. This transaction would be tax-free to the annuity owner and the gain and basis within the annuity would be reduced pro rata. If you own a single premium immediate annuity (SPIA) payments from this non-qualified annuity can be directly used to fund qualified long-term care insurance premiums and again a partial assignment of this SPIA contract can be 1035 exchanged and used to pay for long term care insurance premiums. Based on interpretation of current tax law the dollars reported as taxable would be "zero" unless the IRS issues new instructions and requires a different reporting structure.

So clearly, if you're able to pay for your long-term care insurance premiums tax-free by using payment through an annuity there may be a significant tax savings to you as the policyholder. We all pay at least 25%, 30% or even 40% of every dollar we earn to taxes. By paying your long term care insurance premiums tax-free you are then saving these tax dollars which results in a net decrease in the cost of your long term care insurance premiums.

If you implement this strategy for an existing long-term care insurance policy this can be done at any time. If you're interested in using this strategy for the purchase of a new long-term care insurance policy the first three months of premium must be paid by you with after-tax dollars before, you can pay the premium with your tax-free annuity dollars. The reason for this is it generally takes 3 to 6 weeks for a long-term care application to be approved and if you are not approved for coverage then you would have to have used tax-free annuity dollars to pay for long-term care insurance premiums when in effect you did not have eligible premiums to pay. Therefore, it would create an administrative burden to you to correct the error.

I highly recommend you speak with your financial planner to see if any of the new annuity payment strategies can work for you. Should you have questions about your current long term care coverage or would like to recommend a family member or friend to us who needs assistance with long-term care insurance planning, please contact me personally at 800-613-4021 or 970-384-1900.

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