

There May Be a Hidden Treasure in Your Portfolio

A deferred annuity may be repositioned to fund a Long-Term Care insurance policy, turning a tax deferral into a tax-free benefit.

A non-qualified deferred annuity, one not in a formal retirement plan like a 401(k) or IRA, may be included in the financial portfolio of an individual. When the person reaches or approaches retirement, it may be apparent that other assets and investments will be sufficient to fund a comfortable retirement, and the non-qualified annuity may not need to be triggered. The owner's intent may now be to leave it to a beneficiary, or hold it as an emergency fund for Long-Term Care.

This may not be the best plan for the annuity. Most, if not all, deferred annuities have gain. If the annuity is used to pay for Long-Term Care, disbursements will be taxed on a LIFO (last in first out) basis, meaning taxable gain will come out before any return of principal. With substantial gain there will be substantial taxes to be paid.

There is a better option. Pursuant to the Pension Protection Act of 2006, an existing non-qualified annuity can be exchanged for a Long-Term Care insurance policy (LTCi) and it will not be considered a taxable event. Since all distributions from an LTCi are tax free, a tax deferred asset will thus be converted into a tax-free resource.

The LTCi can be constructed to include lifetime benefits, so there is no possibility of running out of money. It may also include a Return of Premium feature that pays a beneficiary upon the insured's death. A Surrender option is also available in case the owner simply decides the policy is no longer desired.

This is a way to provide Long-Term Care protection with no possibility of premium increase (unlike traditional LTCi with periodic premiums that can be raised by the carrier).

This is also an exquisite example of leverage. Starting with an investment in a deferred non-qualified annuity and ending with a potential unlimited benefit for Long-Term Care.

For additional information and to discuss how this may be of benefit in any particular case, please contact:

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