ISSUE INSURANCE AGENCY INC.
Since 1972

The Power of The Pension Protection Act

Americans have more than $1.7 Trillion invested in annuities today, and most were purchased with the *intent* of growing them until they were needed to be a retirement income supplement. However, surveys^ of annuity owners routinely indicate the vast majority of annuities will not be tapped and pass to heirs as a death benefit when the owner dies. Those same surveys also indicate that as annuity owners age they often view their annuity as an "*emergency fund*" to cover catastrophic illness or Long-Term Care expenses during retirement. Quite simply, if the original goal for <u>your annuities</u> has changed over time, then it may be time to consider leveraging the power of The Pension Protection Act (PPA).

The PPA was enacted by Congress in 2006; with provisions for existing non-qualified annuities becoming effective for consumers and advisors in 2010. While every situation is unique*, these provisions generally allow an annuity owner to (1) upgrade an existing annuity into a PPA compliant annuity TAX-FREE, and (2) then take TAX-FREE distributions to cover qualifying Long-Term Care expenses in the future.

Real World Implications.....

The best way to see the power of the PPA is to look at a real-life example, so let's assume you deposited $100,000 into a tax-deferred annuity kind 15 year ago, it is now worth $200,000 and provides guaranteed minimum rate of 3%. You now see friends and relatives begin to need care as they age and know that most of that care is **NOT** covered by Medicare. Like other annuity owners, the goal of your annuity changes and you intend to use it to help cover the cost of future expenses for "Healthcare in Retirement".

Using the provisions of the Pension Protection Act and "upgrading" to a PPA compliant solution, you can now leverage that $200,000 annuity, and turn it into **$600,000** of Long-Term Care benefits **AND** maintain your 3% tax-deferred interest rate!! You now have an excellent way to "upgrade" your annuity to help mitigate the risk associated with future Long-Term Care needs. This strategy is even better with respect to taxes.....

Turn Taxable Gains Into Tax-Free Benefits!!

Your original investment of $100,000 (your basis) doubled to $200,000, and withdrawals from your old annuity would be subject to LIFO (last-in, first-out) accounting rules. This means your taxable earnings would come out first and distributions to pay for future Long-Term Care expenses will result in reportable income in the year it is taken.

By "upgrading" to a PPA compliant solution, the result would instead be **TAX-FREE** distributions of the $600,000 in Long-Term Care benefits; rather than ***taxable*** distributions of just the $200,000 of accumulated cash value. Perhaps most importantly, the implementation of this substantial Long-Term Care plan – even adding a spouse/partner to create a joint-life plan – can be accomplished with <u>**ZERO**</u> out-of-pocket cost!

As you evaluate annuities you own, consider the tax implications of using those annuities. If you haven't implemented a Long-Term Care plan, leveraging the Pension Protection Act may be a great way to use the tax code to your advantage.

** This information is general in nature and may not apply to everyone - Consult a tax advisor or CPA for individual tax implications with this type of solution.*

^ 2013 Survey of Owners of Individual Annuity Contracts where The Gallup Organization surveyed 1,008 owners of individual annuity contracts during Jan and Feb 2013.