Pension Protection Act

The Pension Protection Act & Hybrid Long Term Care Annuities

The Pension Protect Act (PPA) was passed by Congress in 2006 and became effective in 2010. The law provides tax advantages for consumers who wish to purchase a long term care policy using a non-qualified annuity policy.

The provision in the IRS tax code allowing for this is called a 1035 tax free exchange. Consumers can use this provision to purchase a long term care policy with an annuity on a tax advantaged basis.

Significance Of The Pension Protection Act

The PPA encompasses a lot, but one major purpose was to incentivize the purchase of LTC insurance. Federal and state governments would much rather have consumers and insurance companies pay the costs of extended care than these same consumers spend down their assets and then turn to Medicaid for assistance. (Medicare only partially pays for the first 100 days of skilled nursing care, but nothing more.)

Tax Benefits Of The Pension Protection Act

The primary advantage is the tax incentives provided by this law.

It offers flexibility for those with existing assets earmarked for long term care expenses. *The interest gains from non-qualified annuity accounts can now be used on a tax-free basis to fund a hybrid long term care annuity.*

(A non qualified annuity is one where the initial investment was made with post-tax dollars. This is unlike a qualified annuity – like an IRA or 403b – where the investment was made with pre-tax dollars).

Why Change To A Hybrid Long Term Care Annuity?

Consumers can exchange an older non-qualified annuity account for a hybrid long term care annuity using the 1035 exchange rule. When setup properly, this exchange generates *no taxable gains. The taxable growth now transfers tax free to the new hybrid policy.*

But wait, there's more. The gains could be withdrawn later on a tax free basis to cover the insured's long term care expenses – like care in an assisted living facility, nursing home or the annuity owner's own home.

Additionally, hybrid long term care annuities may leverage the deposits by a factor of 2-3 times providing the potential for much larger LTC benefits than the policy from which they came.

This can be a very good strategy for those who have an existing annuity set aside to pay for long term care expenses as well as for those who wish to self-insure. **Why take taxable withdrawals from a non-qualified annuity to pay for LTC expenses—at home or in a facility—when you can take *tax free withdrawals* from a hybrid LTC annuity?**

Separate from the Pension Protection Act, if your CD/savings is being saved for future care you can purchase a hybrid LTC annuity with it. (No 1035 exchange). You can leverage that money 2-3 times and when needed take it out tax free for your Long Term Care needs.

Note: There is some medical underwriting for hybrid annuities, though not as strict as the underwriting for traditional LTC insurance.

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