



Fund an annuity to pay for long-term care insurance in the future

One of the biggest worries for many pre-retirees is: “What happens if I get sick? And how will I pay for it?”

That’s where long-term care insurance comes into play. Long-term care insurance can pay for assistance with daily activities like bathing, dressing, or eating, at home or in a facility. However, the main drawback to long-term care insurance is the cost. According to the American Association for Long-Term Care Insurance Annual Price Index survey of leading long-term care insurers, the annual premium for a couple both age 60 is \$2,550.¹

The options for long-term care benefits are limited:

- A stand-alone long-term care insurance policy can be cost-prohibitive and there are very few carriers that offer these products.
- Some types of life insurance policies offer additional long-term care or chronic illness riders.
- There are also hybrid long-term care annuities.

One way to fund long-term care insurance in the future is by investing in a nonqualified (after-tax money) annuity today. Gains in the nonqualified annuity can grow tax deferred and then gains and principal can be transferred tax-free via a 1035 exchange to a long-term care annuity.

A long-term care annuity is a type of hybrid annuity contract that includes a long-term care rider. The Pension Protection Act of 2006 created IRC Sections 7702B(e)(1) and 72(e)(11), which allow for distributions that pay for long-term care costs from a qualifying annuity to be considered a tax-free reduction of cost basis and not taxable income. Therefore, the gains from the initial nonqualified annuity never have to be realized or recognized.

Not all annuity contracts qualify for this tax treatment. The new IRC sections say that coverage for long-term care expenses essentially creates a new contract—that’s why the distributions can be treated in such a manner. Annuity contract language must include proper language to meet this qualification.²



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A qualifying long-term care annuity creates a leveraged pool (usually two to three times) for long-term care benefits. Let's look at a hypothetical example:

- \$150,000 nonqualified annuity
 - 1035 to qualifying long-term care annuity creates \$450,000 in long-term care benefits
 - ($\$150,000 \times 3 = \$450,000$)
- The benefits usually have a monthly cap based on the length of the benefit
 - \$5,000/month for 7.5 years
 - ($\$450,000 / 90 \text{ months} = \$5,000$)

Note: Delaware Life does not offer a qualifying long-term care annuity.

The Accelerator Prime[®] variable annuity advantage

Delaware Life's Accelerator Prime[®] variable annuity can allow your clients to accumulate gains in a tax-deferred wrapper. With more than 90 investment options and complete investment freedom, the potential upside is unlimited.³

If long-term care benefits are needed in the future, a 1035 exchange can transfer those gains along with the principal to a tax-free long-term care annuity.

If long-term care benefits are not needed, the client can add a guaranteed lifetime withdrawal benefit for an additional fee that can provide an income stream they can never outlive.⁴

Getting a younger client, someone in their 40s or 50s, into an Accelerator Prime[®] variable annuity provides options to pay for long-term care needs or provides income later in life.

Mechanics of a 1035 exchange: Titling is important

Each annuity contract has an owner and an annuitant (most of the time they are the same person). For a 1035 exchange to be valid, the owner on the nonqualified annuity contract must be the same as the owner on the long-term care annuity contract. Also, the annuitant on the nonqualified annuity contract must be the same as the insured on the long-term care annuity contract.

Example:	NQ Annuity	LTC Annuity
	Owner: Robert	Owner: Robert
	Annuitant: Robert	Annuitant/Insured: Robert

¹ Couple, both age 60 (Select Health): \$165,000 level benefits, 2023 reports. Data from the American Association for Long-Term Care Insurance, <https://www.aaltci.org/long-term-care-insurance/learning-center/lcfacts-2023.php#2023costs-60>.

² Note: Delaware Life does not offer a qualifying long-term care annuity.

³ Subject to investment risk

⁴ For an additional fee

About Deborah A. Miner, JD, CFP®, CLU®, ChFC®, RICP®

Debbie is a vice president for National Sales Consulting. She's worked in the financial services industry for more than three decades and excels at turning complex client situations into easy-to-understand sales strategies. Debbie has expertise in retirement, business, and estate planning tools, techniques and taxation.

About National Sales Consulting

The NSC team is a group of highly educated, experienced professionals who are go-to consultants on income and tax planning and business-building strategies. They can provide actionable sales ideas, meaningful content, and resources that are rich in education and practice management strategies as well as ways to help simplify complex planning issues for clients. The team's goal is to help financial professionals be successful.

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For more information, contact the National Sales Consulting team at:

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