Planning for long term care via

1035 Exchanges

NGL
It's about people.

BACKGROUND

People often purchase financial products (life insurance/annuity contracts) because they have a need to provide for their family in a number of ways. Such needs include saving for retirement, paying off debts, replacing a person's income, providing for children's education expenses, or to pay off a mortgage in the untimely event of someone's death. But, as people get older and their financial obligations change, they sometimes find themselves with a life insurance or annuity contract that doesn't adhere to their original intended purpose and that they no longer need.

ISSUE

As a means to pay for long term care, a policyowner might consider withdrawing money from the cash value of an existing life insurance policy or the surrender value of an annuity contract that is no longer needed. These policies, often owned for many years, can accumulate a sizable amount of deferred gain that has built up in the contract. If (partially or fully) withdrawn, the owner could be subject to potentially having to pay tax on those gains.

LEGISLATIVE

Pension Protection Act 2006 – Cash value from certain non-qualified deferred annuities and life insurance contracts may be used (or exchanged) to pay LTCi premium and not be considered taxable income.

The Internal Revenue Code Section 1035 allows the exchange of an existing life insurance or annuity contract for a new long term care insurance policy, without paying tax on the investment gains earned in the original contract. These transactions are often referred to as a "1035 exchange."

"Like-kind" transfers for long term care insurance that qualify as 1035 exchanges:

- Life insurance to qualified long term care insurance
- Non-qualified annuity to qualified long term care insurance

1035 REASONS

Reasons to do a 1035 exchange

- Exchange surrender value (principal and tax-deferred gains) of a life insurance or annuity contract for a long term care insurance policy that provides tax-free benefits when the policyholder becomes claims eligible
- A new long term care insurance policy could be better suited for current and future needs than an existing life or annuity contract that no longer meets the purpose it was originally intended for
- Protect retirement plan assets from the financial risks of LTC expenses
- Help preserve an estate for future generations

SOLUTION

EssentialLTC, a tax-qualified long term care insurance product issued by National Guardian Life Insurance Company (NGL), offers features and benefits designed to appeal to the needs of both insurance professionals and consumers. EssentialLTC is highly customizable and provides a broad range of service options in the setting of your choice.

Optional Product Features:

- Lifetime LTC Benefits
- Employer Group rate class priced on a unisex basis or 5% Employer Group premium discount on gender-specific pricing – see state variation listing
- 5% Association Group premium discount
- Shared Benefits
- Return of Premium
- Single, 10-year, or Lifetime Premium Payment Options
- Multiple Inflation Protection Options
- Joint Policy Design / Competitive Pricing
- First Day Home Care Benefits

When using the Limited, or Full, Return of Premium with Optional Policy Surrender Rider, EssentialLTC can be a great solution for those consumers looking to leave premium payments to their beneficiaries at death or be able to forfeit the policy for a partial return of premium while alive.

EssentialLTC can be designed with optional riders and features so that it is a win/win/win solution for the policyowner and/or their family.

If long term care is needed…

Policy pays a long term care benefit

If long term care is never needed…

The total of all premiums paid for the policy will be paid to a named beneficiary at death of the insured

If the policyowner changes their mind and no longer wants the policy

The surrender value will be a lump sum payment to the policyowner

NEXT STEPS

1. Identify (cash value) life insurance and annuity contract owners
2. Review existing contracts to see if they are still needed
3. Discuss planning options
4. Determine if long term care planning is necessary
5. Take action! If appropriate, suggest a 1035 exchange into a long term care insurance policy

Contact us with any questions or requests for additional information.

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EssentialLTC