

Unlocking Tax-Free Dollars for Long-Term Care

Leverage an existing annuity to fund LTC policies

The reality is that long-term care can be one of the largest expenses in retirement, and many families wonder how they'll manage the cost. Traditional insurance may feel expensive or even inaccessible for health reasons, while tapping into investments could mean paying taxes at the wrong time.

Fortunately, a strategy leveraging annuities to fund long-term offers a flexible and tax-efficient way to fund care needs with a hybrid annuity with a LTC rider.

How it works

A provision under the Pension Protection Act allows you to purchase a hybrid annuity with an LTC rider and utilize a tax-free transfer known as a 1035 exchange. This provision may prove beneficial to individuals who own annuities with a low-cost basis (low original premium paid) or those who are not in the best health. Another scenario is having an income annuity or an annuity with an income rider where they do not plan to use income.

The annuity value grows with interest over time. If you need long-term care, you can draw from an enhanced pool of money for qualified care expenses, potentially receiving two or three times your initial investment.

Normally, withdrawals from an annuity are taxed as ordinary income on any gains but under this solution, if those dollars are used for qualified LTC expenses or premiums, the taxes are waived.

If LTC benefits are not needed, the annuity continues to grow, preserving and increasing the value for retirement or legacy purposes.

This approach provides a flexible, tax-efficient way to fund LTC protection without needing additional out-of-pocket contributions.



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The tax-free benefit is specifically for qualified long-term care expenses and is made possible through a 1035 exchange of an existing annuity. This is based on current tax law, which is subject to change. Guarantees are backed by the financial strength and claims paying ability of the issuing company. This flyer is designed to provide general information on the subjects covered. Pursuant to IRS Circular 230, it is not intended to provide specific legal or tax advice and cannot be used to avoid penalties or to promote, market, or recommend any tax plan or arrangement. You are encouraged to consult your personal tax advisor or attorney to help determine the applicability of this strategy. This material is intended for educational purposes only and is not intended to serve as the basis for any purchasing decision.

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Case Study: Turning Taxable Gains into Care Benefits

Mary is looking to secure some Long-Term Care coverage. She is 72 and has had a few health issues. She has a few different ways she can approach this.

Scenario 1

Mary can cash in the $200,000 annuity that she purchased a few years ago. It has grown to $300,000. If she cashes it in to purchase an LTC policy, assuming she qualifies, she will owe income tax on the $100,000 gain.

Scenario 2

Mary can do a 1035 exchange to move her existing annuity into a hybrid LTC annuity. By doing this, she pays no annual premium and as the annuity grows, so does the coverage. Her initial $200,000 becomes a $600,000 pool of tax-free qualified long-term care. If she ever needs care, she can draw on this pool tax-free. If she never needs care, she still has access to income and a legacy for her heirs.



With one move, Mary can turn a potential tax liability into a powerful LTC safety net.

Why this approach works?

Tax efficiency

Withdrawals for long-term care needs are tax-free under the tax law.

Leverage

Many hybrid annuities multiply your premium, creating 2–3x the value available for care.

Flexibility

If you never need care, the annuity still provides income or passes unused funds to heirs.

This strategy provides a way to unlock tax-free dollars to help cover future Long-Term Care needs. By leveraging annuities in this way, you can help protect your retirement lifestyle and preserve your legacy.

This is a hypothetical example for illustrative purposes only. Results will vary based on your specific age, health, and policy details.

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