

NEW TAX PERKS FOR NONQUALIFIED ANNUITY OWNERS

You can thank the Pension Protection Act.

Provided by Timothy C. Hucks, CEP, President, Rising Tide, Inc.

More options. On January 1, 2010, owners of nonqualified annuities were allowed some new tax benefits. On that date, the Pension Protection Act (PPA) of 2006 was fully implemented and brought about dramatic and interesting changes for those who had started annuities with after-tax dollars. At the start of 2010:

- Non-qualified deferred annuities with added long term care insurance riders were now characterized as tax-qualified LTC insurance plans.¹
- As a result, all withdrawals from these “hybrid annuities” are income tax free so long as they are used for qualified long term care. So you can use the cash value of the annuity to cover the cost of LTC insurance premiums without triggering a taxable event.¹
- Annuity owners were now allowed to make tax-free 1035 exchanges into appropriate hybrid annuities with long term care riders.²
- Additionally, an annuity owner can do a 1035 exchange for the cash value from any annuity into a single-premium qualified LTC insurance policy without incurring any gains.²

Now these annuities are even more attractive. Hybrid annuities with LTC insurance riders already offer their owners tax-deferred growth - and sometimes, a return-of-premium option that gives back the investment to an owner’s estate if no LTC claim is made. These linked-benefit annuities (and linked-benefit life insurance policies) can provide something like a “money-back guarantee”, as well as the capability to multiply the benefit value of idle cash sitting on the sidelines. The new allowance of what could be sizable tax-free withdrawals makes them look even better.

In addition, the new freedom to make a tax-free exchange means that an annuity owner can now leave a current contract for a hybrid annuity that may provide a much greater pool of money someday to cover LTC costs.

Are they for you? These hybrid annuities are certainly worth a look. If you can’t qualify medically for LTC insurance but still need to be protected, a hybrid annuity may be an excellent option. Many people fund these annuities by redirecting cash from a bank CD or an annuity they already own. You might want to talk to your insurance or financial consultant about the possibility.

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Citations.

¹ thecompletelawyer.com/financial-matters/retirement-planning-financial-matters/new-laws-mean-important-changes-for-long-term-care-4333.html?nomobile [4/20/09]

² financial-planning.com/bic_issues/2009_11/the-new-wave-in-ltc-hybrids-2664417-1.html?ET=financialplanning:e907: [11/1/09]