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The Deficit Reduction Act
& The Pension Protection Act

3 ☐ 2006: A Year of Change

- After years of “Status Quo” from Washington, significant advances were made to encourage personal LTC planning.
 - Reducing dependency upon government programs.
 - Giving consumers more options.

4 ☐ Legislative Impact on LTC

- Deficit Reduction Act of 2005
 - Major effects on Medicaid
- Pension Protection Act of 2006
 - First legislation in a decade giving consumers a tax advantage for private LTC planning

5 ☐ Deficit Reduction Act of 2005

- Increased Medicaid’s “look back” period from three years to five years.
 - If it is discovered that assets were transferred in this time, an ineligibility period is applied.
 - Ineligibility period is determined by a formula in which the dollar value of the transfer is divided by the average monthly cost of nursing home care

6 ☐ Deficit Reduction Act of 2005

- Changed Medicaid’s ineligibility period.
 - The ineligibility period is now assessed after a nursing home patient applies for Medicare-paid care
 - Previously it was assessed from the date of the asset transfer

7 ☐ Deficit Reduction Act of 2005

- Allows for the expansion of partnership plans nationally
- United States Government Accountability Office report:
 - After surveying the several states with plans in place, survey suggested:
 - Partnership programs are unlikely to result in savings for Medicaid and may result in increased Medicaid spending

8 ☐ DRA & Medicaid planning

“The bill tightens the loopholes that allowed people to game the system by transferring assets to their children so they can qualify for Medicaid benefits. Along with governors of both parties, we are sending a clear message: Medicaid will always provide help for those in need, but we will never tolerate waste, fraud, or abuse.”

-President George W. Bush

Source: Office of the Press Secretary, “President Signs S.1932, Deficit Reduction Act of 2005”, February 8, 2006.

9 ☐ The Pension Protection of 2006

- Provisions taking effect January 1, 2010:
 - Cash value withdrawals from certain non-qualified annuities used to pay for LTC expenses or LTCi premiums that meet HIPAA standards will no longer be considered taxable income—regardless of cost basis!
 - LTC coverage, under section 7702B of HIPAA, can now be added to annuity contracts. The law even allows for LTC coverage to be provided to annuities issued in the past (since 1/1/97).

10 ☐ The Pension Protection Act of 2006

- How it can benefit your annuity clients
 - After 1/1/2010, certain annuity cash withdrawals used to pay LTC expenses or LTCi premiums will not be considered taxable income
 - Provisions only apply to specific annuities:
 1. Those funded with after-tax premium (NQ \$)
 2. Only annuities that have HIPAA qualified LTC benefits and triggers as part of (or as a rider to) policy
- NOTE: Annuities with waiver of surrender charge provisions for nursing home costs will typically not meet PPA requirements.

11 ☐ LTC Claims Pre- and Post-PPA

- Pre-January 1, 2010
 - Qualified LTC withdrawals are made on a LIFO basis and taxable to the extent of gain.
- Post-January 1, 2010
 - Qualified LTC withdrawals are a reduction of cost basis and are non-taxable.

12 ☐ Annuities with LTC Provisions will benefit greatly

- Benefits for Policyholders:
 - Any LTC claims paid from the annuity’s cash value will not be taxable, regardless of cost basis.*
 - Extension of Benefit Options and Riders will be considered tax-qualified and benefits paid from them will not be taxable.*

*These provisions are effective January 1, 2010 for contracts and/or riders with tax-qualified LTCi.

13 ☐ Annuities as a long-term care funding option

- Accumulate tax-deferred interest
- Provide LTC benefit
 - Enhanced LTC fund rates
 - LTC benefits beyond cash value
 - Combination annuity/health LTC
- Unused cash value paid to beneficiaries

14 Annuities as a long-term care funding option

15 Advantages of annuities with LTC benefits

- “Buying down” the cost of catastrophic protection and guaranteed premiums.
- Assets retained if care is never needed
- Option for those with assets but some health problems

16 Questions

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