Bob Carlson's
RETIREMENT WATCH

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A Higher Return on Safe Money, Plus LTC Benefits

Most of you have a slug of "safe money" on which you'd like to earn a higher return without risking your principal. You also would like to protect your estates from long-term care expenses without the use-it-or-lose-it feature of standalone long-term care insurance policies. There are tools available to help you reach these goals.

In the past we've discussed indexed annuities. (See our April 2014 visit.) Several times in past visits we've also discussed the combo policies, such as annuities with long-term care benefits. Longtime readers know that I don't favor most policies that combine life insurance or annuities with LTC. They have shortcomings such as low returns, high costs for the LTC features, and less-than robust LTC benefits. Once in a while an exception comes along that's worth considering.

Let's start with a review of the basics of indexed annuities.

An indexed annuity credits interest to your account each year, but the interest isn't determined by interest rates. Instead, it is determined by the performance of one or more market indices you selected from among those offered by the insurer. Usually they are stock indices.

You won't receive the full return of the index. The annuities usually have caps on the maximum amount of interest you can be credited with each year. There's also a participation rate. If the participation rate is 50% and the index increase is 6%, then your account is credited 3% for the year. Indexed annuities rarely use the straight total return calculation you see published to determine the index return for the year. Instead, formulas such as monthly averages and point-to-point are used. These could make the calculated return higher or lower than the widely-cited total return, depending on the pattern of the market for the year.

<u>Indexed annuities also have a guaranteed minimum return.</u> These days most guarantee 0%. Your account value won't decline no matter how much the index declines, and you can earn a higher return than from traditional safe investments if the index does well.

A combo policy will add LTC benefits and perhaps allow you to purchase additional LTC benefits. Typically, you can begin taking regular distributions from the annuity without penalty if you qualify for LTC, and the LTC payouts might exceed your annuity balance. In addition, if you never need LTC, the annuity balance is available for your other needs or for a beneficiary to inherit.

Now, take a look at a new combo annuity/LTC, the Indexed Annuity Care from State Life Insurance Company, a OneAmerica company. State Life is a pioneer in annuity/LTC combo policies and is A+ rated by A.M. Best, ranking it among the most financially secure insurers in the U.S.

You make a lump sum payment of $50,000or more, and the annuity can cover one person or a married couple jointly. You choose how the account is indexed. You can choose to earn straight interest or from among four crediting methods linked to the S&P 500. Each year on the contract anniversary date the account is credited with the appropriate interest. This interest is locked in. It can't be lost if the index subsequently declines. <u>In years when the index is flat or declines, your account balance stays steady.</u> You can change the index method once any time during the year, and it will be in place for at least the next year.

You can withdraw up to 10% of the account without penalty each year for the first nine years. After that, there is no surrender penalty for withdrawing funds. For withdrawals greater than 10%, the penalty is 9% the first year and declines by one percentage point each year. Of course, there is no penalty for distributions

Annuity Watch

"To learn more about the Indexed Annuity Care or other annuities, call my annuity expert, Todd Phillips of Phillips Financial Services at 888-892-1102."

made after you or your spouse qualifies for LTC benefits.

There are several ways the annuity pays for LTC. Your deposit and compounded interest are available to pay for LTC. In addition, the amount available for LTC increases each year you own the annuity by one percentage point. For example, after five years up to 105% of the balance is available for LTC; after 10 years 110% is available for LTC, and so forth.

Plus, you can buy a rider for additional LTC benefits, called a Continuation of Benefit Rider. This can cover up to a lifetime of benefits if you want. Once the premium for the additional benefits is set, it can't be increased as long as you own the annuity. You also can choose to add an inflation adjustment to the additional benefits. The inflation increase can be 2% to 5% compounded annually.

When a married couple buys the annuity jointly, each spouse can receive the full maximum monthly LTC benefits at the same time.

State Life will issue the annuities to people as old as 85. To qualify, there's a telephone interview of about 15 minutes plus a review of your medical history after your application is completed. These are advantages to someone who isn't qualified for stand alone LTC policies or is charged high premiums for them.

The LTC benefits are tax-qualified. That means any distributions for LTC are income-tax free, and any premiums paid for the additional care rider (but not the basic annuity payment) are deductible as itemized medical expenses. Many other annuity/LTC combos aren't tax qualified, and distributions from them to pay for LTC are taxed as ordinary income.

There are a few other benefits. You can exchange an existing annuity tax free for this annuity. The annuity can be purchased through a traditional IRA. Even the Continuation of Benefits rider can be purchased with a tax-free annuity exchange. In that case, benefits paid for LTC under the rider would be tax free but not non-LTC distributions.

Here's an example of how Indexed Annuity Care can work.

Max and Rosie Profits are married and both age 65. They use $100,000 from a maturing CD to jointly purchase the Indexed Annuity Care. Let's say future stock index returns are below average, and on average 3% annually is credited to their annuity. At age 80 the balance is $155,797.

At that point, each of them needs LTC and triggers LTC payouts from the annuity. Because they've owned the annuity for 15 years, their LTC benefits are $179,166 (their $155,797 balance plus 15%, or 115% of their balance). The benefits are payable over 30 months (24 months for an individual annuity owner), so their maximum monthly benefit is $5,972 ($179,166 divided by 30). Each of them will receive that amount each month until the annuity benefits are exhausted or they have passed away.

If Max and Rosie purchased the Continuation of Benefits rider at the start, after 30 months the benefits would continue for the additional term they selected.

Suppose instead Max and Rosie never need LTC, live to 90, and earn 3% annually. They would leave an annuity balance of $209,378 for their beneficiaries to inherit.

The Indexed Annuity Care offers several advantages. It's available to older people and to some who aren't medically qualified to purchase stand-alone LTCI. It's a way to earn a higher return on safe money and to increase the amount available to pay for any LTC you need. It can have some tax advantages. If you don't need LTC the money is available for your other needs or for heirs.

To learn more about the Indexed Annuity Care or other annuities, call my annuity expert, **Todd Phillips of Phillips Financial Services at 888-892-1102**. RW