The Power Of The Pension Protection Act

Americans have amassed more than $1.8 Trillion of assets in annuities, and most are *intended* to grow tax-deferred until they are needed to supplement retirement income or Social Security. However, surveys^ show the vast majority of these annuities will be left untapped and continue to grow, usually until the annuity owner passes away. Those same surveys also indicate that as annuity owners age, they often view the assets as an "*emergency fund*" to cover catastrophic or chronic illness or Long-Term Care expenses during retirement. Simply put, if the original goals for your annuities have changed over time, it may be time to consider leveraging the power of The Pension Protection Act (PPA).

Congress enacted the PPA in 2006; however, the provisions for existing annuities only recently became a vital retirement and tax planning tool. While every situation is unique*, these provisions generally allow an annuity owner to (1) upgrade an existing annuity to a PPA-compliant annuity TAX-FREE and (2) take TAX-FREE distributions to cover qualifying Long-Term Care expenses in the future.

Real-World Implications.....

Perhaps the best way to see the power of the PPA is to look at a real-life example. Let's look at Sally Saver, who deposited $100,000 into a fixed rate, tax-deferred annuity 15 years ago, and that annuity is now worth $200,000 with a guaranteed minimum rate of 3%. She sees friends and relatives begin to need Long-Term Care and knows that most of those expenses are NOT covered by Medicare. As such, the goal for the annuity has changed, and she now intends for it to help cover the cost of future expenses for "Healthcare in Retirement". Sally has an excellent way to "upgrade" her annuity to help mitigate the risk associated with future Long-Term Care needs.

By utilizing the Pension Protection Act and "upgrading" to a PPA-Compliant solution, she can leverage her $200,000 annuity into $600,000 of Long-Term Care benefits AND maintain an attractive tax-deferred interest rate!! This strategy becomes even more appealing for the tax benefits.....

Turn Taxable Gains Into Tax-Free Benefits!!

Sally's original investment of $100,000 (her basis) doubled to $200,000, and any withdrawals from her old annuity would be subject to LIFO (last-in, first-out) accounting rules. That means her taxable earnings would come out first to pay for future Long-Term Care expenses from the annuity, and those distributions would result in reportable income in the year it is taken. By "upgrading" to a PPA-compliant solution, the result would be TAX-FREE distributions of the $600,000 in Long-Term Care benefits rather than taxable distributions of just the $200,000 of accumulated cash value.

Finally, by using the tax code to her advantage, it's possible to implement a substantial Long-Term Care plan with ZERO out-of-pocket cost...

As we evaluate your existing annuities, if we consider the tax implications of using those annuities, then leveraging the Pension Protection Act may be a great way to take advantage of the tax code to implement your Long-Term Care plan.

* This information is general in nature, and we should consult your tax advisor or CPA to determine the tax implications should you utilize this type of solution.

^ 2021 Survey of Owners of Individual Annuity Contracts where The Gallup Organization surveyed 1,008 owners of individual annuity contracts during Jan/Feb 2021.