

# Use a portion of large, existing annuities for LTC protection



If you have clients with large non-qualified annuities, there are new opportunities to help them prepare for long-term care expenses.

Clients have many reasons to consider a partial 1035 exchange, especially for annuities with significant accumulated value. For some people, the need for LTC protection can be achieved by redirection of existing assets.

With an immediately enhanced LTC accumulated value, Annuity Care II can be an attractive outlet for such funds. By allocating a portion of an existing annuity to Annuity Care II via a partial Section 1035 exchange, your clients can create a significant pool of dollars that are available for long-term care expenses. Of course, any replacement of an existing annuity must not be made unless all factors are weighed and it is documented as suitable for the client.

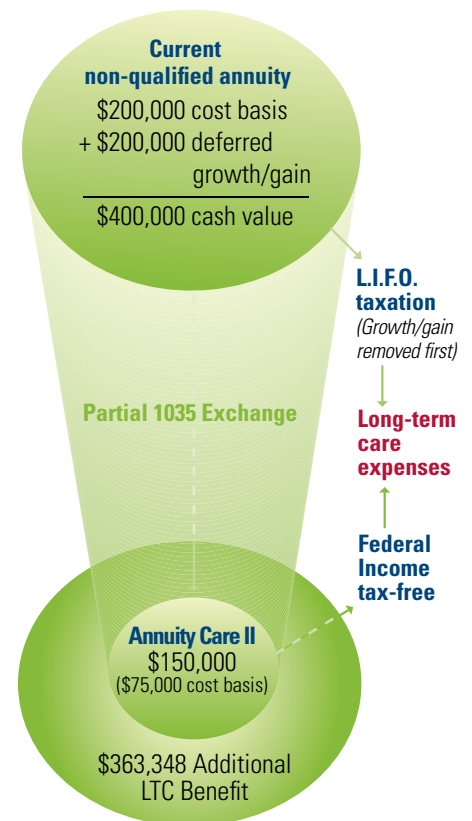
## Case study example

John is 68 and in good health. Years ago he purchased a nonqualified annuity that now has an accumulated value of \$400,000 and a cost basis of \$200,000. Overall, John has been satisfied with the annuity, especially an income benefit not yet utilized. Of immediate concern to John and his wife, Elaine, is the fact they have not addressed their exposure to LTC expenses.

Based on their situation, John executes a partial 1035 exchange of \$150,000 to Annuity Care II. This amount leaves sufficient value in his existing annuity to meet any future income needs.

With Annuity Care II, John would have an initial benefit pool of \$513,348 — his premium of \$150,000, plus an additional \$363,348 from the continuation of benefits balance — that will grow over time as his annuity accumulates interest. Qualifying LTC expenses paid from Annuity Care II are federal income tax-free under the Internal Revenue Code, and at death any unused annuity cash value will pass to the named beneficiary. John was also able to add Elaine as an insured on the policy through Annuity Care II's Eligible Person contractual provision.

## Annuity Care hypothetical example



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**Notes:** Effective October 24, under Revenue Procedure 2011-38, any amount received under either the original contract or new contract within 180 days of a partial 1035 transfer may be characterized as taxable after application of general tax principles to determine the substance of the transfer. This would include partial or full surrenders.

The information provided does not constitute legal, accounting, tax, or other advice. As with all tax matters, your clients should consult with their personal tax advisor for information specific to their situation.

Annuity Care II is underwritten and issued by The State Life Insurance Company, Indianapolis, Indiana. Policy Form SA35. Product not available in all states or may vary by state. All individuals in this scenario are fictitious and all numeric examples are hypothetical and are used for analytical purposes only.

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While partial 1035 exchanges are not always an appropriate course of action, the opportunity to use Annuity Care II when the situation merits is significant. Contact your State Life wholesaling team at **1-800-275-5101** for further details.

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