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COVER STORY: THE SENIOR MARKET

## Giving LTC Sales A Push This Year

### Seize The 2010 Opportunity

BY MICHAEL S. PINKANS



As 2010 begins, many producers are happy to leave 2009 behind. Industry sales of life insurance were down significantly last year, and fixed annuity sales cooled dramatically in the last quarter as interest rates declined. But for 2010, sales should increase as the economy and consumer sentiment recovers.

The question is, how to implement a plan for *real* sales increases?

The answer: Focus on the senior market and use some of the provisions in the Pension Protection Act of 2006 that became effective January 1, 2010. These two strategies will enable producers to carve out a tremendous sales niche.

For instance, consider showing senior market clients how they can do the following:

- **Pay for long term care coverage with built-up annuity gains on a tax-free basis.** Less than 10% of the U.S. population is believed to have purchased a stand-alone LTC policy. While many understand the need to protect against the financial drain caused by assisted living, home health care, or nursing home care, many clients just find the cost of a policy too prohibitive for a benefit they may never receive. However, under PPA guidelines effective in 2010, a client can use a fixed annuity to pay for a stand-alone LTC policy utilizing Section 1035 of the Internal Revenue Code—and no exclusion ratio (and no taxable event) would apply.

That means a client can now get a discount on a LTC policy by using oth-

erwise taxable gains from an annuity in a tax-free manner.

- **Earn a greater benefit from a linked life/LTC contract.** Does the client want to maintain control of assets and protect beneficiaries with an income tax-free death benefit, while also providing access to LTC benefits, if needed?

The linked life/LTC contract has

#### STRATEGIES FOR 2010

##### WHAT ADVISORS CAN SHOW SENIORS

- **How to pay** for a long term care policy with built-up annuity gains on a tax-free basis.
- **How to earn** a greater benefit from a linked life/LTC contract.
- **How to focus** on living (LTC) benefits available on a tax-free basis instead of annuity interest rates.

Source: Michael S. Pinkans, Zenith Marketing Group, Freehold, N.J.

been a terrific product for individuals who would otherwise look to “self-insure” their individual LTC needs. However, beginning in 2010, this type of product has become even more viable.

Under the PPA, beginning in 2010, monthly charges for the LTC insurance within this type of linked contract are not included in the gross income of the

policy owner. In the past, clients may have received a 1099 tax form for the monthly charges attributable for LTC protection, even if they had a “paid-up” single premium life policy with LTC benefits. The LTC charges are still deducted internally from the policy, reducing income-tax basis, but there is no longer a possible yearly taxable event to the client.

■ **Move away from selling interest rates on annuities and instead focus on living (LTC) benefits.** Yes, annuity interest rates are low (compared to just a few years ago) and annuities may have been a tough sell in late 2009. Then again, compared to bank certificate of deposit rates and

other “safe money” investments, annuity rates continue to be very competitive on a relative basis. It’s just a matter of properly demonstrating this to the client.

Furthermore, thanks again to the PPA, clients can receive true LTC benefits from their non-qualified annuity (pursuant to PPA guidelines) completely tax-free. With limited or no underwriting, these single premium deferred annuities may be perfect for clients who may not medically qualify for (or need) the extra life insurance protection of a linked life/LTC combination product.

Generally, these “linked annuities” function like regular fixed annuities, exhibiting the usual tax-deferred growth potential but with an added twist: a guaranteed amount of LTC coverage. (Usually, the LTC coverage equals two- or three-times the single premium annuity deposit.) This coverage is guar-

anteed even if the annuity value has been used up by LTC claims, as long as the LTC coverage maximum has not been depleted.

Do some clients want to stretch their dollar to provide for LTC, “just in case?” Do these clients have rainy day fund savings in non-qualified annuities (which can be easily 1035 exchanged into these new combination contracts), CD’s or low-risk mutual funds? Do these clients want financial independence in retirement and un-

derstand that Medicare and Medicaid are not suitable options for LTC? Those factors comprise the perfect profile for this sale.

There aren’t many guarantees in life, but producers who use the positive changes created by the PPA and advocate these to the senior market should be guaranteed sales success in 2010. ■

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**Focus on the senior market and use some of the provisions in the Pension Protection Act of 2006 that became effective January 1, 2010**

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